

TSE: 2498

# 2011 HTC ANNUAL REPORT

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# 2011 HTC ANNUAL REPORT

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# **LETTER TO HTC SHAREHOLDERS**

# LETTER TO HTC SHAREHOLDERS

Dear Shareholders,

I am pleased to report that 2011 was another milestone year for HTC Corporation (HTC), thanks to strong consumer support worldwide and the dedicated professionalism of the HTC organization. HTC's founding vision and enduring commitment is to create innovative products that enrich consumers' lives.

## Global Achievement

Growing market affinity for the HTC brand and designs helped us achieve impressive milestones over this past year. In 2011, HTC became the world's 5th largest smartphone maker and the 3rd largest smartphone player in North America. Also in 2011, HTC made Interbrand's annual Top 100 Best Global Brands list for the first time, becoming the first Chinese brand in history to earn an Interbrand top 100 listing.

## Financial Performance

While rapidly expanding our business, we are also steadily growing our revenue and profit. 2011 consolidated revenue grew 67.1% from the previous year to NT\$465.8 billion, marking an historic high. Consolidated gross margin and operating margin for the year were 28.3% and 14.8%, respectively. Net profit after tax rose to NT\$62.0 billion - an NT\$22.4 billion increase over 2010. Earnings per share (EPS) of NT\$73.32 and return on equity (ROE) of 70.4% demonstrate HTC's ability to deliver returns to shareholders.



Chairperson

*Cher Wang*

## Investing in the Future

HTC continues to recruit the brightest RD talents in the industry in 2011. These top professionals are dedicated to developing next-generation technologies and innovative new products to enhance HTC's core competitive strengths and position in the rapidly evolving global smartphone industry.

We followed the 2010 launch of the world's first 4G smartphone (the HTC EVO 4G), with the 2011 launch of the world's first LTE smartphone (the HTC Thunderbolt), and the world's first Windows 4G LTE smartphone (HTC Titan II). HTC led the industry in Windows Phone 7.5 (Mango) implementation and continues to extend HTC's leadership in smartphone-related technologies.

In addition to advances on the R&D front, we've made strategic investments in Beats, KKBOX, and OnLive and acquired popular software and content service providers Saffron Digital, Dashwire and Inquisitive Minds (Zoodles). This greatly enhances our ability to integrate music, gaming, social and personal applications into HTC's proprietary HTC Sense™ interface. HTC will also tap the potential of cloud computing to develop and promote an increasingly diverse array of content and services.

The collaboration with major audio brand Beats by Dr. Dre takes the HTC mobile music experience to new heights. Smartphones such as HTC Sensation XE, HTC Sensation XL, HTC Rezound and the HTC One series incorporate Beats Audio™ sound technology and come bundled with Beats in-ear headphones. Delivering on the promise of recording-studio sound quality, these models are market successes that exemplify HTC's commitment to enhance user experience and introduce ever newer and better products.

## Major Awards

Designing products that meet consumer needs and lead market demand has earned HTC an impressive list of international recognition and awards. In February 2011, the Mobile World Congress (MWC) named HTC its "Device Manufacturer of the Year"—the communication industry's most coveted annual award—remarking that HTC had, "built its market presence from nowhere, with fresh branding and marketing and a strong portfolio of devices across many platforms... With great communication and good customer service, this is a well deserved award."

At CTIA Wireless 2011, the HTC Thunderbolt, the world's first 4G LTE smartphone, launched in cooperation with Verizon, earned CTIA's "Emerging Technology Award" in the smartphone category. Laptop Magazine chose the HTC EVO 3D as its CTIA 2011 "Best of Show" and "Best Smartphone." Notebooks.com also gave HTC EVO View 4G its seal of approval as the "Best Smart Phone of CTIA 2011."

Further, HTC's product designs are earning growing attention from industrial design heavyweights such as the IDEA and Red Dot design awards. IDEA 2011 gave Communication Tools category Gold, Silver and Bronze awards, respectively, to HTC Droid Incredible, HTC EVO 4G and HTC Legend. Red Dot honored the HTC EVO 4G with its highest design award - the "red dot: best of the best." Such awards highlight HTC's success in bridging multiple disciplines to deliver aesthetic designs and innovation.



CEO & President

*Peter Chan*

## Philanthropic Activities

While focused on growth, we continue to invest actively in our communities and charitable causes. The HTC Social Welfare Foundation is a long-term sponsor of programs that help disadvantaged children and youth, train life education volunteers, and award academic scholarships. The HTC Education Foundation works with domestic and overseas education organizations to promote character and civic education programs. The foundation is a sponsor of the University of Missouri's LACE and CHARACTERplus in the United States. We also work at all levels of education in Taiwan to develop character education curricula and train educators needed to lead and sustain character education programs.

## Vision for the Future

HTC will open its Taipei One Building in June 2012 and our new Taoyuan factory is scheduled to begin commercial production this year. While pursuing worldwide growth and opportunities, we will remain firmly rooted in Taiwan and use it as a solid foundation upon which we will continue to develop and innovate. HTC will continue put consumers first in everything we do. We will develop and market products that incorporate industry-leading technologies and deliver exceptional, user-tailored experiences. Whether at home, outdoors, in the car, or at work, HTC customers will instantly access the highest quality audio-visual, entertainment and mobile communications services. The extremely competitive smartphone market has proven a trial-by-fire for HTC in every aspect of our business. It is the forge that created, and now sustains, our core competitive advantages. We firmly believe that HTC's focus, determination and expertise will continue to help us meet future challenges and generate value for our shareholders.

### HTC Corporation

Chairperson

*Cher Wang*

CEO & President

*Peter Chan*



# **COMPANY PROFILE**



# COMPANY PROFILE



## HTC - A Global Leader in Smartphone Innovation & Design

Founded in May 1997, HTC leads the mobile phone industry in both innovation and design. With the belief that the best things in life can only be experienced, not explained, HTC's "Quietly brilliant" brand strategy permeates the culture of organization. By always putting customers at the center, HTC continues to deliver exceptional technologies and products. This is the core value of HTC as an innovative company as well as a business partner.

The passion for innovation and the vision to create revolutionary, life-changing smartphone devices keeps HTC moving forward. HTC's portfolio of innovative handheld devices provides custom-made solutions to the telecommunications clients and retail partners in Europe, Americas and Asia and brings intuitive user experiences to consumers around the world. With many talented employees and strong leadership, HTC rapidly captured a significant share of the market with its design expertise and keen market insights. HTC is now the 5th largest smart phone brand globally. In 2011, HTC was honored one of the "Best Global Brands" listed by Interbrand.

HTC has achieved many ground-breaking innovations. In the long-term partnership with Microsoft, HTC launched flagship products for each generation of the Windows CE, Windows Mobile and Windows Phones systems. With Google, HTC developed the world's first Android smartphone. Also ahead of the competition, HTC was the first company to launch 3G, 4G WiMAX and LTE smartphone devices in the world. In product design, our belief in putting customer at the center leads to the birth of HTC Sense™. This user-centric perspective features an amazing camera that let users take pictures of continuous motion whenever they happen, take pictures while still recording videos and capturing images while playing back videos. HTC also partnered with Beats Audio™ to provide high fidelity audio experience to the users. HTC believes that the new generations of smartphones are not only a communication tool but also an all-round mobile device that fulfills users' needs in entertainment, social networking, and personal lifestyle.

HTC devotes itself to developing exciting Android and Windows Mobile devices with enhanced functionality and experiences. Looking into the future, HTC will continue to capture new market opportunities, strengthen the global business operation, and position itself as the number one smartphone brand to the consumers.

HTC's registration number on the Taiwan Stock Exchange (TSE) is 2498.

## Company History

HTC started with the goal of bringing the power of computing into the hands of people around the world. To date, we have been through three major transformations that have helped us reinvent ourselves and achieved new growth.

### Professional PDA Designer

Soon after beginning operation in 1997, HTC was selected by Microsoft to develop products using Windows CE, the newly launched operating system designed specifically for consumer electronic products. The President (now the Director of the Board) HT Cho and the Vice President (now Chief Executive Officer) Peter Chou put together HTC's first R&D team and developed the world's first handheld personal data assistant (PDA) to run on Windows CE. This significant first step helped HTC become an important partner of Microsoft Corporation and built the solid foundation on which the HTC-Microsoft partnership continues to grow and flourish. The Compaq iPAQ, manufactured by HTC for Compaq Computer became a huge market success when launched in 2000 and started a new phase of success for HTC in the PDA segment.

### Smart Phones Leader

HTC's second major turning point took place in 1999. A decision was made by the management to take the company into the telecommunications arena. Current HTC CEO Peter Chou saw the increasingly important role of mobile telecommunication products in the daily lives of consumers. Mr. Chou predicted that the GSM standard would spread from Europe to dominate U.S. and Japanese markets. Mr. Chou then visited Europe's largest telecommunications companies to discuss an innovative new approach for the industry - the development of "customized" devices for the wireless communication market. In 2002, HTC broke new ground in the industry by launching two new mobile wireless devices, the O2 XDA and Orange SPV in partnership with O2 (UK) and Orange (France) respectively. The products, designed around Microsoft's latest operating system, helped telecommunication service providers increase average revenue per user (ARPU) and earned worldwide attention.

HTC is the first to integrate Internet, entertainment, video and personal assistant functions into a mobile phone with a large dimension onto high resolution and full color display panel. This ushered in a new era in the history of the mobile phone. It was at this point that HTC began to develop products in partnership with customers and to tailor products based on telecommunications services provided by its customers. This marks the beginning of HTC's efforts in building a global sales and service network and entrance into the global telecommunications market.

### HTC Brand

Quietly brilliant is deeply rooted within HTC's corporate culture. We continuously roll out phones with innovative features to satisfy needs of different consumers, changing the way they enjoy mobile lifestyle.

By always putting customers at the center, HTC has repeatedly taken HTC Sense to its next level to delight and surprise consumers. Knowing that the most frequently used feature on the mobile phone is the camera, HTC built our camera that lets users take pictures while still recording a video and not miss any timeless moments. These pictures could be wirelessly projected onto a television to share with friends and family. Users can also enjoy thousands of radio stations worldwide in the car through an HTC phone.

HTC has been expanding its retail reach around the world. Consumers are now able to experience the latest HTC innovations first hand through our vast retail network.

Among many awards HTC has received including the Best Mobile Phone Company by GSMA (Global System for Mobile Association) in 2011, we were also named one of the "Best Global Brands" by Interbrand.

**BEST  
GLOBAL  
BRANDS  
2011**



## Product

HTC believed 2011 was the year of the smart phones. The company launched a diversified product portfolio that met the needs of different consumers. With products like HTC Wildfire S, designed around youth preferences and lifestyles, and HTC Sensation, which emphasizes speed and multi-media performance, HTC successfully expanded its market to an even broader group of consumers.

As the world entered the 4G era, HTC continued to lead the industry by launching the world's first LTE Android phone and LTE Windows phone.

In our everyday life, images and sound are some of the most emotional elements. Our mobile phones have become the primary device for recording precious moments. Capitalizing on this insight, in 2012, HTC took high performance mobile imaging and high fidelity audio to the next level.



HTC has brought to consumers an amazing camera that previously could only be achieved on a high-end digital camera. Understanding the frustration of having a perfect moment slip away, HTC created a phone camera that gets ready to take a shot with the speed of human reflex, focuses as fast as the human eyes blink, and captures continuous shots at an amazing speed.

HTC questioned why consumers should have to decide between video mode and camera mode, when what really mattered was to capture life's timeless moments without interruptions. HTC created a camera where consumers can take high resolution photos while still continue recording a video. Consumers can also capture still images during video playback. With HTC's advanced imaging technology, photos are captured perfectly even when conditions are not ideal, such as when there's back light.

Sharing should be simple. Through an easy-to-set up accessory, HTC phones can wirelessly project content onto any television. Users can now easily watch photos, video, movies in their phones on a big screen TV. From capturing to sharing, HTC phones provide a more personal experience.



Committed to giving consumers authentic, high fidelity sound, HTC integrated Beats Audio™, so consumers can feel the music the way artists intended.

HTC changes how people listen to music in the car. With just one touch, users can easily access over 60,000 radio stations from 170 countries across the world.

These quietly brilliant moments are examples of a holistic experience we call HTC Sense™.





## Board of Directors and Supervisors



Cher Wang



Wen-Chi Chen



David Bruce Yoffie



Chen-Kuo Lin



Josef Felder



Tan Ho-Chen



HT Cho



Shao-Lun Lee



Huang-Chieh Chu

### BOARD OF DIRECTORS

- Cher Wang Chairperson
- HT Cho Director / Member of the Compensation Committee
- Wen-Chi Chen Director
- Tan Ho-Chen Director
- David B. Yoffie Director
- Chen-Kuo Lin Independent Director / Member of the Compensation Committee
- Josef Felder Independent Director

### BOARD OF SUPERVISORS

- Shao-Lun Lee Supervisor on behalf of Way-Chih Investment Co., Ltd.
- Huang-Chieh Chu Supervisor

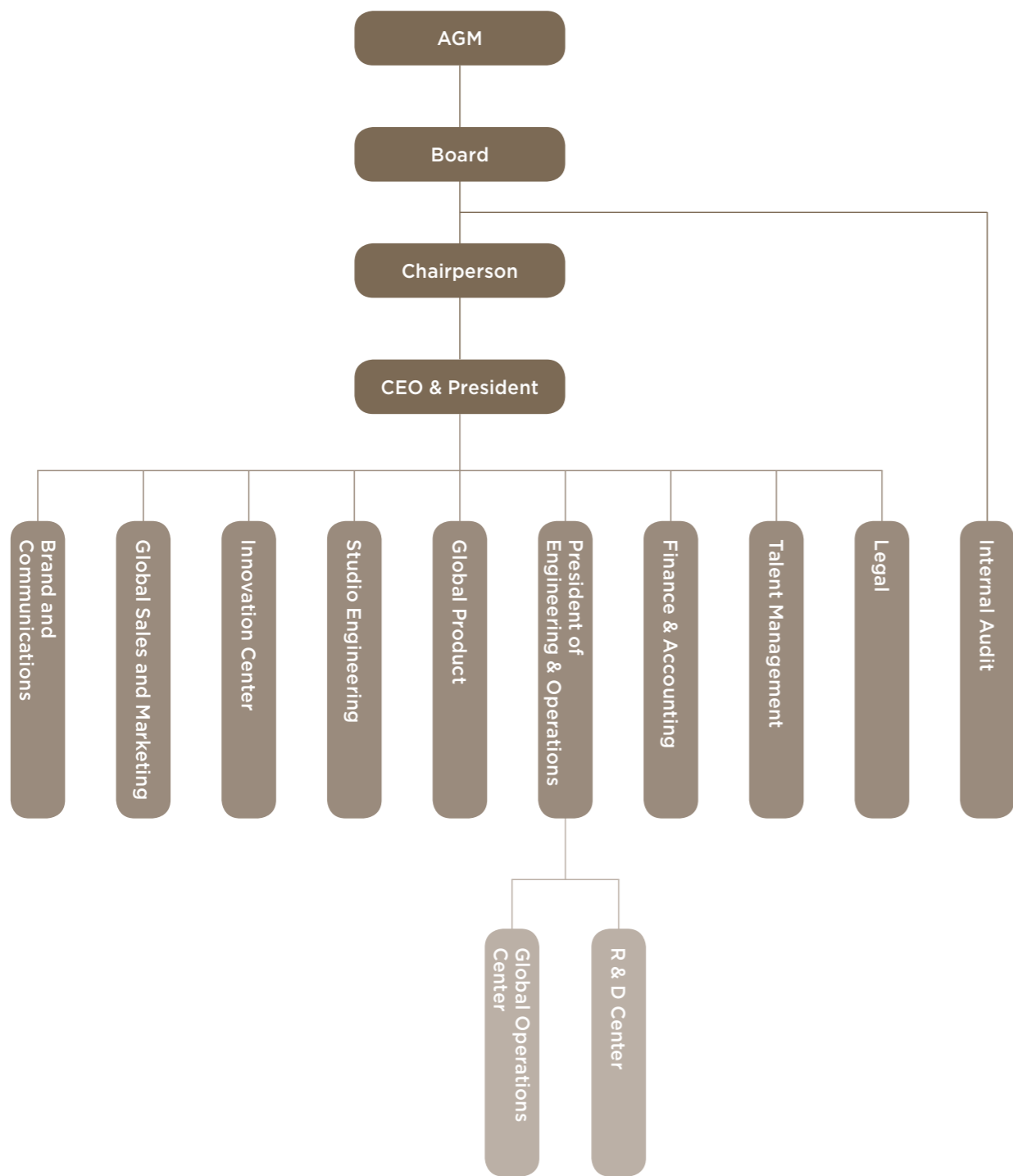
## Management Team

Peter Chou	Chief Executive Officer & President
Fred Liu	President of Engineering and Operations
Chialin Chang	Chief Financial Officer
Jason Mackenzie	President of Global Sales and Marketing
Matthew Costello	Chief Operating Officer
David Chen	Chief Engineering Officer
Scott Croyle	Vice President, Innovation
John Wang	Chief Marketing Officer
Kouji A. Kodera	Chief Product Officer
Grace Lei	General Counsel
Crystal Liu	Vice President
CS Wang	Vice President
Georges Boulloy	Vice President
Gregory Fisher	Vice President

Lotus Chen	Vice President
Simon Hsieh	Vice President
Simon Lin	Vice President, Studio Engineering
WH Liu	Vice President
Jim Lin	Associate Vice President
Steve Wang	Associate Vice President
Thomas Chien	Associate Vice President
James Chen	Associate Vice President
Edward Wang	Associate Vice President
Florian Seiche	President / EMEA Region
Jack Tong	President / North Asia
Lennard Hoornik	President / South Asia
Ray Yam	Head of HTC Communication, China



## Organization



## Organization Functions

### President of Engineering & Operations

Responsible for execution of products research and development, responsible for global production management.

### Brand and Communications

Responsible for global corporate image; conduct branding and marketing activities; conduct industry research and implement corporate marketing strategies.

### Global Sales and Marketing

Lead the global product sales and marketing team; conduct product promotion, new customer development, customer relations, customer services and PR related.

### Innovation Center

Conduct R&D work related to new technologies, potential future products and applications; provide results/ findings to other R&D departments for further development.

### Studio Engineering

Responsible for development of design and innovation research strategy; conduct innovation products design and research.

### Global Product

Conduct research on market trends; develop and manage product portfolio; define product development strategies.

### Global Operations Center

Manage global production capacities, plant expansion, production and quality control; coordinate delivery schedules; manage global after-sales service to ensure HTC products meet customer demand / expectations.

### R & D Center

Responsible for R&D and fostering a research culture within the company.

### Finance & Accounting

Responsible for corporate governance, investor relations, global tax planning, cash management, investment planning, risk management, shareholder services and business and cost analyses.

### Talent Management

Handle corporate human resources development and administration; promote HTC corporate culture and employee benefit programs; conduct organizational and human resource planning to support corporate development.

### Legal

Responsible for all HTC contracts, trademarks, patents, intellectual properties, lawsuits and other legal affairs.

### Internal Audit

Audit effectiveness of internal systems and controls; assess accuracy of financial information and reports.

## Worldwide Office Locations

HTC is headquartered in Taiwan. Sales and service centers located in Europe, Americas and Asia to ensure our ability to service clients and enhance relationships with consumers. HTC maintains a presence in all key markets, including the United States, Canada, the United Kingdom, Germany, France, China, Japan, Korea, Italy, the Netherlands, Belgium, Greece, Spain, Poland, Denmark, Russia, Singapore, Thailand, the Philippines, Indonesia, India, Malaysia, Australia, the United Arab Emirates (UAE) and Brazil.

Key HTC operation centers include:

### Corporate Headquarters

No. 23, Xinghua Road,  
Taoyuan City, Taoyuan County,  
Taiwan, R.O.C.  
Tel:+886-3-3753252  
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### Taipei Two Building

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### HTC Electronics (Shanghai) Co.,Ltd.

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## Human Resources

Employees represent one of HTC's most valuable assets. The company has in recent years actively recruited outstanding talent into its ranks – particularly in the areas of product design, user interface, brand promotion, and sales and marketing. While bringing on professionals from Europe and Americas, we have also invested significant resources into making the work environment at HTC diverse, challenging, and encouraging.

As of the March 31<sup>st</sup> 2012, HTC employed 16,746 staff worldwide. 24.8% of all HTC managerial positions are held by 331 non-Taiwanese managers. Non-Taiwanese managerial and technical staff filled 12.9% of HTC managerial and technical positions. Women held 21.0% of HTC's 1,332 managerial positions.

### Statistics related to the structure of human resources at HTC (excluding outsourced labor)

#### Employees by Position Type

	Mar. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Management	1,332	1,317	874
Specialists	3,959	4,010	2,978
Administrators	1,220	1,240	931
Technical Staff	10,235	10,846	7,792
Total	16,746	17,413	12,575

#### Gender, Average Age and Average Years of Service

	Mar. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Male	9,530	9,982	7,214
Female	7,216	7,431	5,361
Average Age	30.04	29.73	29.92
Average Years of Service	2.41	2.16	2.22

#### Employees' Highest Level of Academic Achievement

	Mar. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Ph.D.	98	94	67
Master's	3,494	3,514	2,195
Bachelor's	5,336	5,668	3,912
Technical / Vocational	1,381	1,473	1,259
Other	6,437	6,664	5,142



**BUSINESS  
OPERATIONS**



# BUSINESS OPERATIONS



## Industry Overview

The wireless telecommunications sector is in the midst of tremendous growth. In response, mobile phone makers, telecom operators and software developers have introduced countless products and services that aim to satisfy the increase in consumers' mobile demand. Today, the mobile internet is a global consumer phenomenon, and mobile phones already support a cornucopia of multimedia services. Mobile phones are now digital music players, web browsers, e-mail portals, high-speed internet devices, social network hubs and GPS navigation tools. They are an indispensable personal entertainment and work platform, and consumer desire is pushing the smartphone penetration rate up rapidly. International research firm Gartner reported that smartphone penetration rose from 18.6% in 2010 to 26.6% in 2011. Growth is expected to continue for years to come.

So much functionality in the palm of your hand would not have been possible without the coordinated effort of multiple industries and countless companies. The quality of each input impacts directly on final product quality and indelibly affects the user experience. Companies like HTC - the crucial link in delivering customer delight - leverage technical expertise to integrate software and hardware into a variety of smartphone products tailored to the needs of different market consumer segments. Products then reach consumers through downstream telecom service providers and retail channels.

Data-centric 3/4G wireless communication technology has now superseded previous voice-centric 2G standards. The move to 4G is particularly evident in the United States, as US telecom providers seek to further expand mobile multimedia services. The smartphone share of global mobile phone sales continues to grow, fueled by rapidly evolving hardware, increasingly intuitive user interfaces and an expanding universe of mobile content and services. The 470-million smartphone units sold worldwide in 2011 (Gartner Research) represent a stunning 58% rise over the previous year.

An early leader in Windows Mobile, HTC has expanded aggressively into the Android platform to take full advantage of rising demand for mobile digital services. HTC launched the world's first Android mobile phone in 2008. The company has also wholly transformed the mobile phone design paradigm - demanding harmony between hardware, aesthetics and user experience in place of the prevalent industry focus on hardware specifications. As such, HTC delivers a holistic user experience to its users. HTC is also a 4G leader. Our launch of the world's first WiMAX Android and LTE Android mobile phones once again confirms HTC's leadership in the smartphone industry.

HTC enjoyed stable supplies of components and other material inputs during the past year. Domestic and overseas manufacturers of critical device components including mobile phone IC chips, LCD screens, touch panels, memory, batteries and cases continue to expand production to meet rapid growth in demand. Component suppliers actively seek cooperation with HTC due to our brand name and business scale, which gives us an advantage in negotiating prices and ensuring stability of supplies. We also continue to diversify our supplier base and strengthen current supplier relationships to minimize the risks of relying on disparate supplier channels and achieve a highly competitive cost structure.

Continued growth in worldwide mobile phone deliveries during 2012 is expected, HTC will continue to demand adequate capacity commitments from suppliers to ensure on-time delivery of components. HTC will also support suppliers to raise production efficiencies and lower costs to enhance mutual competitiveness.

## Market Analysis

Exceptionally positive prospects for the smartphone sector reflect rising consumer utilization of mobile internet. Smartphone functions touch on nearly every facet of modern life. Beyond traditional phone functions, smartphones allow users to manage online social networking, handle e-mails, access the internet and tap into a variety of mobile applications. Market growth continues to attract business attention as well as new competitors eager to profit from exciting opportunities.

Principle mobile phone operating systems (OS) include Android, Windows Phone, iOS and BlackBerry. Symbian, once the Nokia-backed market leader, has lost significant market share in recent years due primarily to the hugely successful rollouts of Android and iOS and their popular app stores. Market trends have since forced Nokia to abandon Symbian in favor of the Windows Phone OS. Gartner Research gave Android a dominant 46.5% share of the global smartphone market in 2011.

HTC is the world's leading manufacturer of both Android and Windows Phone smartphones. Its leading R&D, innovation and operations are further enhanced by its many long-term strategic partnerships with industry leaders that give HTC an active role in shaping industry trends. Close cooperation with major telecom service providers around the globe keeps HTC plugged in to consumer preferences and emerging needs. HTC supplied 9.1% of the global smartphone market in 2011 (Gartner). We rank amongst the world's top 5 manufacturers of smartphones and top 10 manufacturers of mobile phones. Going forward, HTC will continue to leverage innovation and expertise to satisfy diverse consumer needs and further bolster HTC's brand awareness and value.

## Business Scope

Smartphones based on Android and Windows Phone operating systems represent HTC's core product offering. After its 2007 brand launch, HTC focused on sales through telecom operators and retail channel partners in Europe, the Americas and Asia. This focus has since gradually expanded to include emerging smartphone markets in the Middle East, Central and South America and Russia.

Early emphasis on research and development has been bolstered through the years by strategic partnerships with Microsoft, Google and Qualcomm. HTC has consistently developed and launched groundbreaking new product models. Global sales and after-sales service networks support and extend the market success of each new HTC model in order to fulfill its brand promise to both consumers and shareholders.

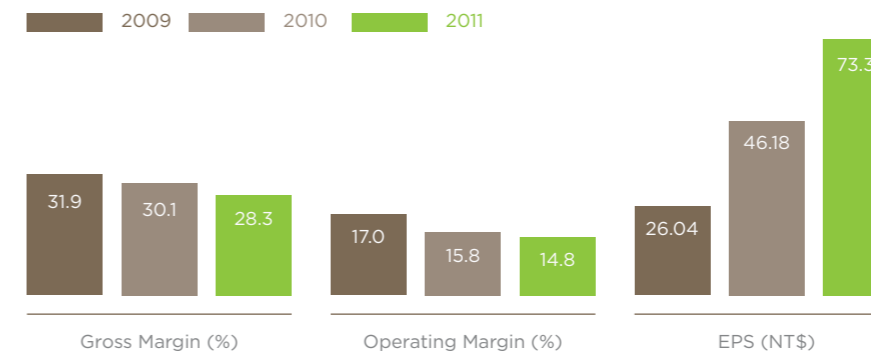
HTC sales to Europe, the Americas and Asia rose sharply in 2011, highlighting broad-based global consumer acceptance of the HTC brand. We will continue to expand our share of the global mobile phone market by continuing to introduce new HTC products that closely fit the way users work, live and play.

## Analysis of Business Results

2011 marked a year of strong growth for HTC. Sales and profit figures hit new highs, net profits after tax for the year reached NTD62.0 billion to set a new all-time record.

2011's remarkable growth in smartphone sales benefited from strong consumer demand worldwide. Dedicated to making products that fit the way users live, work and play, HTC continued to launch a new stream of products, including HTC Desire S, HTC Incredible S, HTC EVO 3D and HTC Wildfire S, HTC Sensation family which sparked consumer enthusiasm. Unit sales of many of these models are in the multiple millions, giving rise to HTC's industry-leading operational performance. Having long been known to be striving in the middle to high-end market segments, HTC extended its product portfolio to the affordable, compact and playful smartphone in 2011 with HTC Wildfire S, HTC ChaCha and HTC Salsa. These HTC phones achieved impressive results during the year through its powerful combination of social networking functions and attractive price point.

HTC continues to streamline operations and optimize cost structures. The slight 1.8 percentage point decline in our gross profit margin to 28.3% was due primarily to exchange rate volatility, product mix changes and market competition. In terms of operating expenses, we continue to devote significant funds to building value and recognition for the HTC brand and to strengthening point-of-sale marketing in our major markets. HTC's consolidated selling and marketing expense in 2011 rose to NT\$40.4 billion, up 86% from 2010. Consolidated operating expenses for the year totaled NT\$63 billion. Benefitting from economies of scale, HTC's consolidated operating expense ratio declined by 0.7 percentage points for the year to 13.5%, which boosted the consolidated operating profit margin (OPM) to 14.8%. Earnings per share (EPS) saw a robust leap to NT\$73.32, up significantly from 2010's NT\$46.18.



## Brand Strategy

HTC was honored as one of the world's best 100 brands by Interbrand, in 2011. This is attributed to HTC's conscientious efforts in executing and bringing to life its brand strategy.

The core of HTC's quietly brilliant brand is its quietly brilliant people. HTC puts customers at the center, makes things simple, and goes out of its way to accomplish the impossible. As a result, HTC exceeds expectations and delivers pleasant surprises.

For example, HTC questioned why consumers should have to decide between video mode and camera mode, when what really mattered was to capture life's timeless moments without interruptions. Seeing the world through the consumers' eyes, HTC created a whole new way of using the camera where the consumers can take photos while still continue to record a video. On top of that, HTC made the camera focus as fast as the human eyes blink and capture continuous shots at an amazing speed. These quietly brilliant moments reflect the ideas behind HTC's relentlessly innovation. Launched at the 2012 Mobile World Congress, HTC One delivers the most amazing camera with HTC ImageSense and authentic sound by Beats Audio™, pioneering the next level in high performance mobile imaging and high fidelity audio.

When HTC delivers quietly brilliant moments, consumers get an experience that is most personal, one that is worthy of a personal recommendation. HTC communicates not by shouting, but instead by earning and spreading consumers' personal recommendations. The 'As recommended by' campaign was launched to give the HTC customers a platform to share and advocate their personal experiences. Just like how HTC is quietly brilliant, just like how its products are quietly brilliant, HTC's communication is also done in a quietly brilliant way.

## Progress in Research & Development

Since its inception, HTC has invested consistently to solidify in-house R&D capabilities. Today, R&D professionals account for almost 30% of HTC's headcount, and annual R&D investments regularly represent 3 to 5 percent of total revenues. HTC products are frequent trailblazers, earning a long line of "firsts" that includes the world's first Windows Mobile and Android smartphones, first dual-mode GSM/WiMAX phone, first 3G Android phone, and first 4G LTE Android phone. HTC Sense™, launched in 2009, was a momentous breakthrough that revolutionized the mobile phone experience. In 2011, HTC launched several enhanced cloud and audio-visual services such as HTC Watch and Beats Audio™, such exclusive service features uniquely enhance and enrich the HTC user experience.

HTC has earned its leading position in the smartphone sector through innovation and exceptional understanding of industry and consumer trends. Nowhere is this more apparent than in the Android and Windows Phone markets. In 2011, with markets shifting up to 4G high-speed mobile networks, HTC launched HTC Thunderbolt and HTC Titan II - the world's first LTE Android LTE Windows Phone smartphones. Milestones like these further highlight HTC's leadership in critical technologies.

In the second half of 2011, HTC Sensations' integration of superior Beats Audio™ sound technology delivers unprecedented recording-studio quality that greatly extends the smartphone user experience. Besides, HTC Titan and HTC Radar meet a diverse range of user needs running Windows Phone 7.5, Microsoft's latest mobile phone OS.

In 2012 Mobile World Congress (MWC), HTC unveiled its new HTC One series of smartphones that represent its most premium mobile experience with a new level of iconic design and amazing camera and authentic sound experience. The HTC One series integrates Android 4.0 (ICS) and features longer battery life and high performance new quad-core mobile processor and an amazing HD screen Super LCD 2 with custom HTC ImageChip. With HTC Sense™ 4, the new version of HTC's branded user experience that is introducing HTC ImageSense™, a new suite of camera and imaging features that set HTC One apart from other phones. HTC Sense™ 4 also includes broad enhancements to audio quality and simplifies how people listen to music on their phone.

#### R&D Expenditures in Recent Years

Unit: NT\$ millions

	2012 Q1	2011	2010
Worldwide R&D Expenditures	3,427	15,961	12,940
As a Percentage of Worldwide Revenue	5.1%	3.4%	4.6%

## Corporate Governance

HTC is committed to implementing good governance, effective risk management and information transparency. In 2011, IR Magazine recognized HTC with its "Best Investor Relations by a CEO or President" award in the Greater China Award category. We were also nominated for numerous IR Magazine national awards including "Best Reporting by a Taiwanese Company", "Best Corporate Governance and Disclosure", and "Best Investment Meetings". HTC policies related to these corporate governance are explained further below:

### 1. Independent Director Positions Created

In accordance with the Securities and Exchange Law, HTC elected two independent directors at its board re-elections in 2010, in order to strengthen the independence and functions of Directors and enhance the operational effectiveness of the Board.

### 2. Remuneration Committee Created

In compliance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or Traded Over-the-Counter" as per Letter No.1000009747 issued by the Financial Supervisory Commission of the Executive Yuan on March 18, 2011, the Board of Directors resolved to adopt the Company's Compensation Committee Charter and appoint Independent Director Mr. Chen-Kuo Lin; Director Mr. HT Cho and independent professional advisor Mr. Harvey Chang to the Company's Compensation Committee on December 22, 2011. The official functions of the Committee are to professionally and objectively evaluate the policies and systems for the compensation of HTC directors, supervisors, and managers, and submit recommendations to the board of directors for its reference in decision making.

### 3. Board of Supervisor Proceedings

Meetings of the board of supervisors take place every quarter, at which financial, legal, internal audit and other issues are reported. Issues reviewed by supervisors and certified public accountants include risk management, intercompany transactions, changes in accounting policies, assessments of IPR infringement risk, and reasonableness of provision and accrual items to be presented on financial reports.

### 4. Disclosure of Information & Financial Forecasts

HTC has been working diligently to enhance the timeliness and transparency of financial disclosures. In addition to online disclosure of important data related to HTC's business in accordance with regulations, quarterly earnings calls are held for investors every quarter, at which revenue, margin and expense forecasts are provided. Investor teleconferences are also held to keep investors updated on the latest business operations.

Apart from regular disclosures, HTC also participates actively in investor forums and conferences in Taiwan and overseas as well as proactively visits major investment houses and investors to enhance communication with the investment community.

### 5. Stable Dividend Policies

HTC maintains stable dividend policies. Factors considered in determining dividend distributions include current and future investment environments, capital needs, domestic / international competition, and budgetary considerations. Shareholder interests and the balance between dividend distributions vs. longer-term financial planning are also considered. The board of directors, in accordance with regulations, sets a distribution plan each year for submission to shareholders.

## Major Suppliers/Customers Representing At Least 10% of Gross Purchase/Revenue for The Most Recent Two-Year Period

### 1. Major suppliers representing at least 10% of gross purchase

Unit: NT\$ millions

Supplier Code	2011			2010		
	Amount	%	Relation to HTC	Amount	%	Relation to HTC
a	39,439	15	None	30,060	18	None
Others	220,538	85		134,624	82	
Total	259,977	100		164,684	100	

### 2. Major customers representing at least 10% of gross revenue

Unit: NT\$ millions

Customer Code	2011			2010		
	Amount	%	Relation to HTC	Amount	%	Relation to HTC
A	47,542	10	None	51,647	18	None
B	75,244	16	None	47,500	17	None
C	63,092	14	None	38,544	14	None
Others	279,917	60		141,070	51	
Total	465,795	100		278,761	100	

## Production And Sales for The Most Recent Two-Year Period

### Production

Unit: 1,000 units / NT\$ millions

	2011			2010		
	Production Capacity	Production Quantity	Production Value	Production Capacity	Production Quantity	Production Value
Smartphones	49,470	46,571	263,261	27,305	26,300	156,350

Note: Production capacity represents the normal capacity of current production equipment after making adjustments for necessary production stoppages, non-work holidays, etc.

### Sales

Unit: 1,000 units / NT\$ millions

	2011				2010			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	12,630	20,056	146,899	443,823	4,726	7,454	79,319	270,271

Note: Main product item data not inclusive of income from maintenance / repairs or product development work.

## Principal Contractual Agreements

Principal current contractual agreements shown below were effective or expired during the most recent reporting period.

Contractor	Contract Term	Description
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement term 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.
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 - December 31, 2016	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 in the agreement.	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 in the agreement.	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 in the agreement. b. Any time when the Company is not using any of Motorola's intellectual property.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents in the agreement.	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.





**CORPORATE  
GOVERNANCE**

# 1. Information on the Company's Directors, Supervisors, General Manager, Assistant General Managers, Deputy Assistant General Managers, and Managers of all the Company's divisions and branch units

## (1) Directors and Supervisors:

### 1. Directors' and Supervisors' Information (I)

2012.05.10 : Unit : Share ; %

Title	Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note 2)		Spouse & Minor Shareholding (Note 2)		Other persons holding shares in their name (Note 2)		Principal work experience and academic qualifications	Positions held concurrently in the company and/or any other company	Other executives, Directors and Supervisors who are spouses or within second-degree of kinship		
					shares	%	shares	%	shares	%	shares	%			shares	%	Title
Chairman	Cher Wang	2010.06.18	2013.06.17	1999.04.30	24,736,896	3.20%	27,272,427	3.20%	22,391,389	2.63%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Economics, University of California, Berkeley.</li> <li>General Manager of the PC Division, First International Computer, Inc. (FIC)</li> </ul>	<ul style="list-style-type: none"> <li>Chairman, Via Technologies, Inc.</li> <li>Director, Formosa Plastics Corporation</li> <li>Chairman (Representative), H.T.C. (B.V.I) Corp.</li> <li>Chairman (Representative), HTC Investment One (BVI) Corporation</li> <li>Director, HTC Social Welfare Foundation.</li> <li>Chairman, Via Faith, Hope and Love Foundation.</li> <li>Chairman, Chinese Christian Faith, Hope and Love Foundation.</li> <li>Chairman (Representative), Chander Electronics Corp.</li> <li>Non-executive Director, Television Broadcasts Limited</li> </ul>	Director	Wen-Chi Chen	Spouse
Director	HT Cho	2010.06.18	2013.06.17	2001.04.23	205,143	0.03%	145,530	0.02%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Electronic Engineering, National Taipei Institute of Technology.</li> <li>President &amp; CEO, HTC Corporation.</li> <li>Consulting Engineer, Digital Equipment Corporation.</li> </ul>	<ul style="list-style-type: none"> <li>Chairman, HTC Social Welfare Foundation.</li> <li>Chairman, HTC Education Foundation.</li> <li>Director, Associated Industries China, Inc.</li> <li>Director, Chunghwa Telecom Foundation.</li> <li>General Manager, Atrust Corporation</li> </ul>	None	None	None
Director	Wen-Chi Chen	2010.06.18	2013.06.17	1999.04.30	20,309,651	2.62%	22,391,389	2.63%	27,272,427	3.20%	0	0.00%	<ul style="list-style-type: none"> <li>MSCS, The California Institute of Technology.</li> <li>President, Symphony Laboratories.</li> </ul>	<ul style="list-style-type: none"> <li>President &amp; Director, VIA Technologies, Inc.</li> <li>Director, HTC Social Welfare Foundation.</li> <li>Director, Via Faith, Hope and Love Foundation.</li> <li>Director, Chinese Christian Faith, Hope and Love Foundation.</li> <li>Chairman (Representative), Xander International Corp.</li> </ul>	Chairman	Cher Wang	Spouse
Director	Tan Ho-Chen	2010.06.18	2013.06.17	2009.06.19	0	0.00%	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Civil Engineering, National Chung-Hsing University</li> <li>Master in Regional and Urban Planning, Virginia Polytechnic Institute and State University, VA/ USA</li> <li>Advanced study in Hunter College, CUNY, NY/USA and Humphrey Fellow</li> <li>President, THI Engineering Consulting Co.</li> <li>Director, Department of Transportation, Taipei City Government</li> <li>Executive Vice Minister, Ministry of Transportation and Communication</li> <li>Chairman, Chung Hua Telecommunication Co.</li> </ul>	<ul style="list-style-type: none"> <li>Independent Director, KD Holding Corporation</li> </ul>	None	None	None
Director (Note 1)	David Bruce Yoffie	2011.06.15	2013.06.17	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>B.A. Brandeis University</li> <li>M.A., Ph.D. Stanford University for academic qualification</li> <li>Director, Charles Schwab</li> <li>Director, Spotfire</li> <li>Director, E Ink</li> </ul>	<ul style="list-style-type: none"> <li>Max and Doris Starr Professor at Harvard Business School</li> <li>Director, Intel Corporation</li> <li>Director, The National Bureau of Economic Research</li> <li>Director, MindTree Ltd.</li> <li>Director, Financial Engines, Inc.</li> <li>Director, TiVo Inc.</li> </ul>	None	None	None
Independent Director	Chen-Kuo Lin	2010.06.18	2013.06.17	2007.06.20	0	0.00%	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Economics, National Taiwan University.</li> <li>Advanced study at the Department of Economics, Oklahoma State University.</li> <li>Advanced study at the Department of Economics, Harvard University.</li> <li>Minister, Ministry of Finance, Executive Yuan.</li> <li>Chairman, Taiwan External Trade Development Council. (TAITRA)</li> <li>Chairman, Taiwan Asset Management Corporation.</li> <li>Professor, Department of Economics in National Taiwan University.</li> </ul>	<ul style="list-style-type: none"> <li>Chairman, Board of Tunghai University.</li> <li>Independent director, Taiwan High Speed Rail Corporation.</li> </ul>	None	None	None
Independent Director	Josef Felder	2010.06.18	2013.06.17	2007.06.20	0	0.00%	133,985	0.02%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Graduate of Advanced Management Program (AMP), Harvard Business School, Boston</li> <li>Deputy Director, Crossair</li> <li>Chief Executive Officer, FIG (Flughafen Immobilien Gesellschaft)</li> <li>Chief Executive Officer, Unique (Flughafen Zurich AG)</li> </ul>	<ul style="list-style-type: none"> <li>Independent director, Cereal Holding AG, Zurich</li> <li>Independent director, AMAG, Zürich</li> <li>Independent director, Zingg-Lamprecht AG, Zurich</li> <li>Independent director, Edelweiss Air AG, Zurich</li> <li>Chairman, Gutsbetrieb Oetlihausen AG, Hohentannen</li> <li>Chairman, Pro Juventute, Zurich</li> <li>Independent director, Luzerner Kantonbank AG, Lucerne</li> <li>Independent director, Victoria Jungfrau Collection, Interlaken</li> <li>Chairman, Flaschenpost AG, Zürich</li> <li>Chairman, The Nuance Group</li> </ul>	None	None	None
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	2010.06.18	2013.06.17	1999.04.30 2006.04.13	39,745,389	5.14%	43,819,290	5.14%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Ph.D in Material Science and D.Eng in Electrical Engineering, UCLA.</li> <li>Executive Vice President, Lam Research Co., Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>Director, IC Broadcasting Co., Ltd</li> <li>Vice President, Via Technologies, Inc.</li> <li>Director, Chinese Christian Faith, Hope and Love Foundation.</li> <li>Director, Via Faith, Hope and Love Foundation.</li> </ul>	None	None	None
Supervisor (Note 1)	Huang-Chieh Chu	2011.06.15	2013.06.17	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>MBA, University of Toronto, Canada</li> <li>LL.B., Department of Law, National Taiwan University</li> <li>Director and President, Taiwan Teleservices &amp; Technologies Co., Ltd.</li> <li>Supervisor, Taiwan Fixed Network Co., Ltd.</li> <li>Vice President, Consumer Business Group of Taiwan Mobile Co., Ltd.</li> <li>Vice President, Citibank, N.A., Taipei Branch</li> <li>Director, KG Telecommunications Co., Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>Chief Administrative Officer, Via Faith, Hope and Love Foundation</li> </ul>	None	None	None

Note 1: A Director and a Supervisor were elected at the 2011 Annual General Shareholders' meeting, tenure of the newly elected Director and Supervisor is from 2011.06.15 to 2013.06.17.  
Note 2: Shareholding as of 2012.04.14



**(2) General Manager, Assistant General Managers, Deputy Assistant General Managers, and Managers of all divisions and branch units:**

2012.05.10 ; Unit : Share ; %

Title	Name	Date Elected	Shareholding (note)		Spouse & Minor Shareholding (note)		Other persons holding shares in their name (note)		Principal work experience and academic qualifications	Positions held concurrently in any other company	Managers with spouses or relatives within second-degree of Kinship		
			shares	%	shares	%	shares	%			Title	Name	Relation
Chief Executive Officer & President	Peter Chou	2004.04.30	4,150,843	0.49%	1,190,038	0.14%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Electronic Engineering, National Taiwan Ocean University.</li> <li>Director, Server Platform Design Division, Digital Equipment Corporation.</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), High Tech Computer Asia Pacific Pte. Ltd.</li> <li>Chairman (Representative), HTC Investment Corporation</li> <li>Chairman (Representative), HTC I Investment Corporation</li> <li>Chairman (Representative), Huada Digital Corporation</li> <li>Director (Representative), High Tech Computer (H.K.) Limited</li> <li>Director (Representative), HTC Philippines Corp.</li> <li>Supervisor (Representative), PT. High Tech Computer Indonesia</li> <li>Director (Representative), S3 Graphics Co. Ltd.</li> <li>Director (Representative), HTC EUROPE CO. LTD.</li> <li>Director (Representative), HTC America, Inc.</li> <li>Director (Representative), Beats Electronics, LLC</li> <li>Director, High Tech Computer Corp. (Suzhou)</li> </ul>	None	None	None
President of Engineering and Operations	Fred Liu	2006.04.24	1,640,641	0.19%	500,000	0.06%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Electrical Engineering, Tatung University.</li> <li>Director, PC Server Engineering Division, Digital Equipment Corporation.</li> </ul>	<ul style="list-style-type: none"> <li>Chairman (Representative), Communication Global Certification Inc.</li> <li>Director (Representative), High Tech Computer Asia Pacific Pte. Ltd.</li> <li>Director (Representative), HTC Investment Corporation</li> <li>Director (Representative), HTC I Investment Corporation</li> <li>Chairman, High Tech Computer Corp. (Suzhou)</li> <li>Director (Representative), HTC Philippines Corp.</li> <li>Director (Representative), PT. High Tech Computer Indonesia</li> <li>Director (Representative), HTC (Thailand) Limited</li> <li>Chairman, HTC Communication Co., Ltd.</li> <li>Director (Representative), HTC HK, Limited</li> <li>Director (Representative), S3 Graphics Co. Ltd.</li> <li>Executive Director, HTC Corporation (Shanghai WGQ)</li> <li>Director (Representative), HTC EUROPE CO. LTD.</li> <li>Director (Representative), HTC Belgium BVBA/SPRL</li> <li>Director (Representative), HTC America, Inc.</li> <li>Director (Representative), HTC NIPPON Corporation</li> <li>Director, HTC Electronics (Shanghai) Co., Ltd.</li> </ul>	None	None	None
Chief Financial Officer	Chialin Chang	2012.04.16	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>PhD in Electrical Engineering, Princeton University.</li> <li>MBA, The Wharton School of the University of Pennsylvania.</li> <li>Partner, Goldman Sachs.</li> <li>Engineer, Motorola (US).</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), HTC Holding Cooperatief U.A.</li> <li>Director (Representative), HTC America Holding, Inc.</li> <li>Director (Representative), Dashwire, Inc.</li> <li>Director (Representative), Inquisitive Minds, Inc.</li> <li>Director (Representative), HTC America Content Services, Inc.</li> <li>Director (Representative), HTC Investment Corporation</li> <li>Director (Representative), HTC I Investment Corporation</li> <li>Director (Representative), Saffron Media Group Limited</li> <li>Director (Representative), Saffron Digital Limited</li> <li>Director (Representative), Saffron Digital Inc.</li> <li>Director (Representative), Beats Electronics, LLC</li> <li>Director (Representative), HTC Luxembourg Sar.l.</li> </ul>	None	None	None
President of Global Sales and Marketing	Jason Mackenzie	2007.09.26	93,729	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Business Administration, Point Loma Nazarene University.</li> <li>Vice President, Siemens Communications.</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), HTC Communication Canada, Ltd.</li> <li>Director (Representative), Beats Electronics, LLC</li> </ul>	None	None	None
Chief Operating Officer	Matthew Costello	2010.11.01	50,000	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Economics, Duquesne University.</li> <li>Corporate Vice President, Global Operations and Corporate Development and Planning, Sony Ericsson Mobile Communications.</li> <li>Partner, Managing Director and Vice President of Supply Chain, Andersen LLP.</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), Beats Electronics, LLC</li> </ul>	None	None	None
Chief Engineering Officer	David Chen	2007.05.08	345,273	0.04%	50,901	0.01%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Electronic Engineering, National United College.</li> <li>Principal Engineer, Digital Equipment Corporation.</li> </ul>	<ul style="list-style-type: none"> <li>Chairman, HTC Communication Technologies (Shanghai) Limited</li> </ul>	None	None	None
Chief Marketing Officer	John Wang	2007.05.08	43,730	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>MBA, Harvard Business School.</li> <li>CEO, Quickdot Corporation.</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), Huada Digital Corporation</li> </ul>	None	None	None
Chief Product Officer	Kouji A. Kodera	2010.05.03	66,947	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Law, Keio University.</li> <li>VP &amp; Head of Services &amp; Marketplace, Sony Ericsson Communications AB.</li> <li>Marketing Director, Mitsubishi Electric Telecom Europe S.A.</li> </ul>	None	None	None	None
General Counsel	Grace Lei	2007.05.08	97,798	0.01%	5,868	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Laws, University of Pennsylvania.</li> <li>Master in Laws, National Taiwan University.</li> <li>Partner, Winkler Partners Attorneys at Law of Taiwan and Foreign Legal Affairs.</li> <li>Partner, Tsai, Lee &amp; Chen Co., Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), S3 Graphics Co. Ltd.</li> </ul>	None	None	None
Vice President	Crystal Liu	2012.04.24	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Marketing Management, Oklahoma City University.</li> <li>Bachelor in Business Administration, Oklahoma City University.</li> <li>HR Director, DuPont Taiwan Ltd.</li> <li>Asia Business Group HR Manager, Intel Microelectronics Asia Ltd.</li> <li>HR Manager, BRS Nike.</li> </ul>	None	None	None	None
Vice President	CS Wang	2001.03.12	119,448	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>MBA, Michigan State University.</li> <li>Vice President, Production Enterprise, RCA.</li> </ul>	<ul style="list-style-type: none"> <li>Chairman, HTC Electronics (Shanghai) Co., Ltd.</li> <li>Director, High Tech Computer Corp. (Suzhou)</li> <li>Director, HTC Communication Co., Ltd.</li> </ul>	None	None	None

Title	Name	Date Elected	Shareholding (note)		Spouse & Minor Shareholding (note)		Other persons holding shares in their name (note)		Principal work experience and academic qualifications	Positions held concurrently in any other company	Managers with spouses or relatives within second-degree of Kinship		
			shares	%	shares	%	shares	%			Title	Name	Relation
Vice President	Georges Bouloy	2010.12.01	44,200	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master, Ecole des Mines.</li> <li>VP &amp; Head of Sourcing &amp; Partner Management, Sony Ericsson Mobile Communications.</li> <li>Senior VP wireless BU, Quanta Computers.</li> </ul>	None	None	None	None
Vice President	Gregory Fisher	2011.02.21	10,000	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Economics, Brigham Young University.</li> <li>Director, Intel Technology Asia Pte. Ltd.</li> <li>Director, Intel Corporation.</li> </ul>	None	None	None	None
Vice President	Lotus Chen	2004.04.01	54,006	0.01%	266	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Computer Engineering, National Chiao Tung University.</li> <li>Chairman &amp; CEO, Ulead Systems, Inc.</li> <li>Chairman &amp; CEO, IA Style Inc.</li> </ul>	<ul style="list-style-type: none"> <li>Director, HTC Communication Technologies (Shanghai) Limited</li> </ul>	None	None	None
Vice President	Simon Hsieh	2008.06.01	16,000	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Computer Science and Information Engineering, National Taiwan University</li> <li>Assistance Manager, ASUS.</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), Communication Global Certification Inc.</li> </ul>	None	None	None
Vice President, Studio Engineering	Simon Lin	2008.06.01	55,250	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Electrical Engineering, University of Texas.</li> <li>Director, R&amp;D, Digital Equipment Corporation.</li> </ul>	None	None	None	None
Vice President	WH Liu	2008.06.01	85,675	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Electronic Engineering, National Taiwan University of Science and Technology.</li> <li>Senior Manager, WM System Architecture Design.</li> </ul>	None	None	None	None
Associate Vice President	Jim Lin	2007.05.08	86,302	0.01%	872	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Electronic Engineering, National Taiwan University of Science and Technology.</li> <li>Director, Electric Engineering division, Digital Equipment Corporation.</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), Communication Global Certification Inc.</li> </ul>	None	None	None
Associate Vice President	Steve Wang	2008.06.01	46,000	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Information Science, Azusa Pacific University.</li> <li>VP, IA Style Inc.</li> </ul>	None	None	None	None
Associate Vice President	Thomas Chien	2011.04.01	40,000	0.00%	1,000	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Department of Industrial Design, Shih Chien University.</li> <li>Design Engineer, Premier Image Technology Corporation.</li> </ul>	None	None	None	None
Associate Vice President	James Chen	2009.02.10	14,450	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Accounting, National Chen-Chi University.</li> <li>Manager, TSMC.</li> <li>BU Controller, LITE-ON.</li> </ul>	<ul style="list-style-type: none"> <li>Supervisor (Representative), Communication Global Certification Inc.</li> <li>Director (Representative), HTC America Innovation, Inc.</li> <li>Supervisor, HTC Communication Technologies (Shanghai) Limited</li> <li>Supervisor, HTC Corporation (Shanghai WGQ)</li> <li>Supervisor, HTC Electronics (Shanghai) Co., Ltd.</li> </ul>	None	None	None
Associate Vice President	Edward Wang	2009.03.10	8,140	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>MBA, Tunghai University.</li> <li>VP, Hotung Group.</li> </ul>	<ul style="list-style-type: none"> <li>Supervisor (Representative), HTC Investment Corporation</li> <li>Supervisor (Representative), HTC I Investment Corporation</li> <li>Director (Representative), HTC (Australia and New Zealand) PTY LTD</li> <li>Director (Representative), HTC India Private Limited</li> <li>Director (Representative), HTC Malaysia Sdn. Bhd.</li> <li>Director (Representative), HTC Belgium BVBA/SPRL</li> <li>Director (Representative), HTC Nordic ApS</li> <li>Director (Representative), HTC Iberia S.L.U.</li> <li>Director (Representative), HTC Poland sp zo.o.</li> <li>Director (Representative), HTC Communication Canada, Ltd.</li> <li>Director (Representative), HTC Norway AS.</li> <li>Director (Representative), HTC RUS LLC.</li> <li>Director (Representative), HTC Communication Sweden AB</li> <li>Director (Representative), One &amp; Company Design, Inc.</li> <li>Director (Representative), HTC NIPPON Corporation</li> <li>Supervisor, HTC Communication Co., Ltd.</li> <li>Supervisor (Representative), Huada Digital Corporation</li> </ul>	None	None	None
Director	Joey Cheng	2009.02.09	13,000	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Electrical Engineering, Cornell University.</li> <li>Bachelor in Electrical Engineering, National Tsing Hua University.</li> <li>Executive Director, Goldman Sachs.</li> <li>Sr. Marketing Manager, Marvell Semiconductor.</li> <li>VP of Sales &amp; Marketing, Inprocomm Inc.</li> </ul>	None	None	None	None
President/ EMEA Region	Florian Seiche	2007.05.08	127,959	0.02%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>PhD in Economics, University of Cologne, Germany.</li> <li>Master in Economics, University of Cologne, Germany.</li> <li>Global Director of Devices, Orange Group (London).</li> </ul>	<ul style="list-style-type: none"> <li>President (Representative), HTC France Corporation</li> <li>Administrator (Representative), HTC South Eastern Europe Limited Liability Company</li> <li>Director (Representative), HTC Nordic ApS</li> <li>Director (Representative), HTC Italia SRL</li> <li>Director (Representative), HTC Germany GmbH</li> <li>Director (Representative), HTC Iberia S.L.U.</li> <li>Director (Representative), HTC Poland sp zo.o.</li> <li>Director (Representative), HTC Norway AS.</li> <li>Director (Representative), HTC RUS LLC.</li> <li>Director (Representative), HTC Communication Sweden AB</li> </ul>	None	None	None
President/ North Asia	Jack Tong	2007.07.01	121,858	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Civil Engineering, Feng Chia University.</li> <li>Chief Executive Officer, Dopod International Corp.</li> </ul>	<ul style="list-style-type: none"> <li>Chairman (Representative), HTC Innovation Limited</li> <li>Director, HTC Communication Co., Ltd.</li> </ul>	None	None	None
Head of HTC Communication, China	Ray Yam	2011.03.17	12,750	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Science, Chinese University of Hong Kong.</li> <li>VP &amp; General Manager of Mobile Communication Business, LG Electronics (China) Co., Ltd.</li> <li>Executive Vice President, Eternal Asia Supply Chain Management Ltd.</li> <li>Vice President and General Manager, Mobile Devices Business, Motorola (China) Electronics Ltd.</li> </ul>	None	None	None	None

(Concluded)

Note: Shareholding as of 2012.04.14 (Including Shares under Trust with Discretion Reserved.)

**(3) Remuneration paid during the most recent fiscal year to Directors, Supervisors, General Manager, and Assistant General Managers**

**1. Remuneration paid to Directors (Including Independent Director)**

2011; Unit: NT\$ thousands

Title	Name	Remuneration paid to Directors										Total Remuneration (A+B+C+D) as a percentage of net income (%) (Note 7)								Compensation earned as employee of HTC subsidiary affiliates								Total Compensation (A+B+C+D+E+F+G) as a percentage of net income (%) (Note 7)				Compensation paid to Directors from non-subsidiary affiliates (Note 9)
		Salary (A) (Note 1)		Retirement pay (B)		Compensation from profit sharing (C) (Note 2)		Allowance (D) (Note 3)		Total		Salary, Bonuses, and Allowance (E) (Note 4)		Retirement pay (F)		Employee profit sharing (G) (Note 5)		Exercisable Employee Stock Options (H) (Note 6)		Total		Total										
		HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	Cash	Stock	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)								
Chairman	Cher Wang																															
Director	HT Cho																															
Director	Wen-Chi Chen																															
Director	Tan Ho-Chen																															
Director (Note 10)	David Bruce Yoffie	25,780	25,780	0	0	0	0	0	0	0.04%	0.04%	0	0	0	0	0	0	0	0	0	0	0	0.04%	0.04%	None							
Independent Director	Chen-Kuo Lin																															
Independent Director	Josef Felder																															

Note 1: Directors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)  
 Note 2: The amount proposed for distribution to Directors as compensation, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year's earnings distribution proposal.  
 Note 3: Expenses relating to business execution by directors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).  
 Note 4: All salary, allowances, severance pay, various bonuses, cash rewards, transportation allowances, special allowances, various material benefits, accommodations, and personal cars received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers and employees) in the preceding fiscal year.  
 Note 5: Planned amount of employee bonuses approved for distribution by the Board of Directors prior to the Shareholders' Meeting for the current year's earnings distribution proposal when Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) received employee bonuses (including stock and cash bonuses) in the most recent fiscal year. If the amount cannot be estimated, employee bonus for this year will be calculated based on last year's actual distribution ratio.

Note 6: Number of shares represented by employee stock warrants (not including the portion already exercised) received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) up to the date of printing of this annual report.  
 Note 7: The 2011 net income NT\$ 61,975,796 thousand (Financial Statements), NT\$ 62,299,048 thousand (Consolidated Financial Statements).  
 Note 8: Total amount of all remunerations paid to Directors by all consolidated entities (including HTC).  
 Note 9: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by Directors in their capacity as Director, Supervisor, or managerial officer of a non-subsidiary affiliate.  
 Note 10: David Bruce Yoffie joined HTC on 15 June 2011.

\*Compensation information disclosed in this statement differs from the concept of income under the Income Tax Act. This statement is intended to provide information disclosure and not tax-related information.

**Remuneration paid to Directors**

Scale of remunerations to Directors of the Company	Name		Total Remuneration (A+B+C+D+E+F+G)	
	HTC	All Consolidated Entities	HTC	All Consolidated Entities
Under NT\$ 2,000,000	Cher Wang, Wen-Chi Chen	Cher Wang, Wen-Chi Chen	Cher Wang, Wen-Chi Chen	Cher Wang, Wen-Chi Chen
NT\$ 2,000,000~NT\$ 5,000,000	HT Cho, Tan Ho-Chen, Chen-Kuo Lin	HT Cho, Tan Ho-Chen, Chen-Kuo Lin	HT Cho, Tan Ho-Chen, Chen-Kuo Lin	HT Cho, Tan Ho-Chen, Chen-Kuo Lin
NT\$ 5,000,000~NT\$ 10,000,000	Josef Felder, David Bruce Yoffie	Josef Felder, David Bruce Yoffie	Josef Felder, David Bruce Yoffie	Josef Felder, David Bruce Yoffie
NT\$ 10,000,000~NT\$ 15,000,000	-	-	-	-
NT\$ 15,000,000~NT\$ 30,000,000	-	-	-	-
NT\$ 30,000,000~NT\$ 50,000,000	-	-	-	-
NT\$ 50,000,000~NT\$ 100,000,000	-	-	-	-
Over NT\$ 100,000,000	-	-	-	-
Total	7	7	7	7

## 2. Remuneration paid to Supervisors

2011; Unit: NT\$ thousands

Title	Name	Remuneration paid to Supervisors								Total Remuneration (A+B+C+D) as a percentage of net income (%) (Note 4)		Compensation paid to Supervisors from non-subsidiary affiliates (Note 6)
		Salary (A) (Note 1)		Retirement pay (B)		Compensation from profit sharing (C) (Note 2)		Allowance (D) (Note 3)		HTC	All Consolidated Entities (Note 5)	
		HTC	All Consolidated Entities (Note 5)	HTC	All Consolidated Entities (Note 5)	HTC	All Consolidated Entities (Note 5)	HTC	All Consolidated Entities (Note 5)			
Supervisor (Note 7)	Huang-Chieh Chu											
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	3,694	3,694	0	0	0	0	0	0	0.006%	0.006%	None
Supervisor (Note 8)	Caleb Ou-Yang											
Supervisor (Note 9)	Po-Cheng Ko											

Note 1: Supervisors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)

Note 2: The amount proposed for distribution to Supervisors as compensation, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year's earnings distribution proposal.

Note 3: Expenses relating to business execution by Supervisors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).

Note 4: The 2011 net income NT\$ 61,975,796 thousand (Financial Statements), NT\$ 62,299,048 thousand (Consolidated Financial Statements).

Note 5: The total amount of all remunerations paid to Supervisors by all consolidated entities (including HTC).

Note 6: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by Supervisors in their capacity as Director, Supervisor, or managerial officer of a non-subsidiary affiliate.

Note 7: Huang-Chieh Chu joined HTC on 15 June 2011.

Note 8: Caleb Ou-Yang resigned on 7 May 2012.

Note 9: Po-Cheng Ko resigned on 20 April 2011.

\* Compensation information disclosed in this statement differs from the concept of income under the Income Tax Act. This statement is intended to provide information disclosure and not tax-related information.

### Remuneration paid to Supervisors

Scale of remunerations to Supervisors of the Company	Name	
	HTC	All Consolidated Entities
Under NT\$ 2,000,000	Huang-Chieh Chu Way-Chih Investment Co., Ltd. Shao-Lun Lee Caleb Ou-Yang Po-Cheng Ko	Huang-Chieh Chu Way-Chih Investment Co., Ltd. Shao-Lun Lee Caleb Ou-Yang Po-Cheng Ko
NT\$ 2,000,000~NT\$ 5,000,000	-	-
NT\$ 5,000,000~NT\$ 10,000,000	-	-
NT\$ 10,000,000~NT\$ 15,000,000	-	-
NT\$ 15,000,000~NT\$ 30,000,000	-	-
NT\$ 30,000,000~NT\$ 50,000,000	-	-
NT\$ 50,000,000~NT\$ 100,000,000	-	-
Over NT\$ 100,000,000	-	-
Total	5	5

### 3. Remuneration paid to General Manager and Assistant General Managers

2011; Unit: NT\$ thousands

Title	Name	Salary (A) (Note 1)		Retirement pay (B) (Note 2)		Bonus & Perquisite (C) (Note 3)		Employee profit sharing (D) (Note 4)				Total Remuneration (A+B+C+D) as a percentage of net income (%) (Note 6)		Exercisable Employee Stock Options (Note 5)		Compensation paid to President & Vice Presidents from non- subsidiary affiliates (Note 8)	
		HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC		All Consolidated Entities (Note 7)		HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)		
								Cash	Stock	Cash	Stock						
Chief Executive Officer & President	Peter Chou																
President of Engineering and Operations	Fred Liu																
President of Global Sales and Marketing	Jason Mackenzie																
Chief Operating Officer	Matthew Costello																
Chief Engineering Officer	David Chen																
Chief Marketing Officer	John Wang																
Chief Product Officer	Kouji A. Kodera																
General Counsel	Grace Lei																
Vice President	CS Wang																
Vice President	Georges Boulloy																
Vice President(Note 9)	Gregory Fisher																
Vice President	Lotus Chen																
Vice President	Simon Hsieh																
Vice President, Studio Engineering	Simon Lin																
Vice President	WH Liu							Estimated number		Estimated number							
Associate Vice President	Jim Lin	74,663.05	133,582.51	2,535.51	3,365.63	67,281.87	134,923.82	1,085,795.53	0	1,085,795.53	0	1.99%	2.18%	0	0	None	
Associate Vice President	Steve Wang																
Associate Vice President (Note 10)	Thomas Chien																
Associate Vice President	James Chen																
Associate Vice President	Edward Wang																
President/EMEA Region	Florian Seiche																
President/Noth Asia	Jack Tong																
Head of HTC Communication, China (Note 11)	Ray Yam																
Associate Vice President (Note 12)	Cliff Chou																
Associate Vice President (Note 13)	Ralph Wang																
Chief Innovation Officer (Note 14)	Horace Luke																
Vice President (Note 15)	Shashi Fernando																
Chief Financial Officer (Note 16)	Winston Yung																
Chief Information Officer (Note 17)	Eric Chou																
Chief Strategy Officer (Note 18)	Ronald Allen Louks																

Note 1: General Manager and Assistant General Managers' compensations in the most recent fiscal year include salary, allowances, and severance pay.  
 Note 2: Pensions funded according to applicable law.  
 Note 3: Various awards, bonuses, transportation allowances, special allowances, various subsidies, accommodations, and personal cars by General Manager and Assistant General Managers in the most recent fiscal year.  
 Note 4: The amount proposed for distribution to General Manager and Assistant General Managers as employee bonus (including stock and cash bonuses). Estimated amounts of 2011 employee bonus are calculated based on 2010 actual distribution ratio; distribution list for 2011 has not been decided yet.  
 Note 5: Number of shares represented by employee stock warrants (not including the portion already exercised) received by General Manager and Assistant General Managers up to the date of printing of this annual report.  
 Note 6: The 2011 net income NT\$ 61,975,796 thousand (Financial Statements), NT\$ 62,299,048 thousand (Consolidated Financial Statements).  
 Note 7: Total amount of all remunerations paid to General Manager and Assistant General Managers by all consolidated entities (including HTC).  
 Note 8: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by General Manager and Assistant General Managers in their capacity as director, supervisor, or managerial officer of a non-subsidiary affiliate.  
 Note 9: Gregory Fisher joined HTC on 21 February 2011.  
 Note 10: Thomas Chien joined HTC on 1 April 2011.  
 Note 11: Ray Yam joined HTC on 17 March 2011.

Note 12: Cliff Chou resigned on 17 March 2011.  
 Note 13: Ralph Wang resigned on 28 October 2011.  
 Note 14: Horace Luke resigned on 30 April 2011.  
 Note 15: Shashi Fernando joined HTC on 8 May 2011 and resigned on 22 December 2011.  
 Note 16: Winston Yung resigned on 16 April 2012.  
 Note 17: Eric Chou resigned on 16 March 2012.  
 Note 18: Ronald Allen Louks resigned on 14 February 2012.  
 Note 19: This chart lists persons who have served as HTC's General Manager and Assistant General Managers in fiscal 2011, or who was served as HTC's General Manager or Assistant General Managers by 31 December 2011.

\*Compensation information disclosed in this statement differs from the concept of income under the Income Tax Act. This statement is intended to provide information disclosure and not tax-related information.



#### Remuneration paid to General Manager and Assistant General Managers

Scale of remunerations to managers of the Company	Name	
	HTC (Note)	All Consolidated Entities (Note)
Under NT\$ 2,000,000	-	-
NT\$ 2,000,000~NT\$ 5,000,000	Winston Yung, Cliff Chou, Ralph Wang, Eric Chou	Winston Yung, Cliff Chou, Ralph Wang, Eric Chou, Horace Luke
NT\$ 5,000,000~NT\$ 10,000,000	-	Ronald Allen Louks
NT\$ 10,000,000~NT\$ 15,000,000	-	-
NT\$ 15,000,000~NT\$ 30,000,000	Jim Lin, Grace Lei, James Chen, Edward Wang, Thomas Chien, Georges Boulloy	Jim Lin, Grace Lei, James Chen, Edward Wang, Thomas Chien, Kouji A. Koderu, Ray Yam, Gregory Fisher, Georges Boulloy
NT\$ 30,000,000~NT\$ 50,000,000	CS Wang, John Wang, Lotus Chen, WH Liu, Simon Lin, Simon Hsieh, Steve Wang, Matthew Costello	CS Wang, John Wang, Lotus Chen, WH Liu, Simon Lin, Simon Hsieh, Steve Wang, Shashi Fernando, Matthew Costello
NT\$ 50,000,000~NT\$ 100,000,000	David Chen, Jack Tong	David Chen, Jack Tong, Florian Seiche
Over NT\$ 100,000,000	Peter Chou, Fred Liu	Peter Chou, Fred Liu, Jason Mackenzie
Total	22	30

Note: Estimated amounts of 2011 employee bonus are calculated based on 2010 actual distribution ratio; distribution list for 2011 has not been decided yet. This chart lists persons who have served as HTC's General Manager and Assistant General Managers in fiscal 2011, or who was served as HTC's General Manager or Assistant General Managers by 31 December 2011.

#### 4. Employee profit sharing granted to Management Team

2011: Unit: NT\$ thousands

Title	Name	Stock (Note 1)	Cash (Note 1)	Total Employee Profit Sharing (Note 1)	Total Employee Profit Sharing Paid to Management Team as a percentage of net income (%) (Note 3)
Chief Executive Officer & President	Peter Chou				
President of Engineering and Operations	Fred Liu				
President of Global Sales and Marketing	Jason Mackenzie				
Chief Operating Officer	Matthew Costello				
Chief Engineering Officer	David Chen				
Chief Marketing Officer	John Wang				
Chief Product Officer	Kouji A. Koderu				
General Counsel	Grace Lei				
Vice President	CS Wang				
Vice President	Georges Boulloy				
Vice President (Note 4)	Gregory Fisher				
Manager Vice President	Lotus Chen		Estimated number	Estimated number	
Vice President	Simon Hsieh	0	1,133,004.03	1,133,004.03	1.83%
Vice President, Studio Engineering	Simon Lin				
Vice President	WH Liu				
Associate Vice President	Jim Lin				
Associate Vice President	Steve Wang				
Associate Vice President (Note 5)	Thomas Chien				
Associate Vice President	James Chen				
Associate Vice President	Edward Wang				
President/EMEA Region	Florian Seiche				
President/Noth Asia	Jack Tong				
Head of HTC Communication, China (Note 6)	Ray Yam				
Director	Joey Cheng				

Note 1: Planned amount of employee bonuses (including stock and cash bonuses) approved for distribution by the Board of Directors prior to the Shareholders' Meeting for the current year's earnings distribution proposal. Estimated amounts of 2011 employee bonus are calculated based on 2010 actual distribution ratio; distribution list for 2011 has not been decided yet. The managers named on the list of projected distributions to managers are those who have served as HTC's Managers before 31 December 2011 and were currently employed as the date of publication of the Annual Report.

Note 2: Applicable scope of Officers is made in accordance with 27 March 2003 No. 0920001301 Regulation as follows:

- (1) Chief Executive Officer or equivalent
- (2) Vice President or equivalent
- (3) Associated Vice President or equivalent
- (4) Director of Finance Department
- (5) Director of Accounting Department
- (6) Other Director(s) within Company with signature authority

Note 3: The 2011 net income NTD 61,975,796 thousand.

Note 4: Gregory Fisher joined HTC on 21 February 2011.

Note 5: Thomas Chien joined HTC on 1 April 2011.

Note 6: Ray Yam joined HTC on 17 March 2011.

#### (4) Total remuneration as a percentage of net income as paid by the company, and by each other company included in the consolidated financial statements, during the past two fiscal years to its Directors, Supervisors, the General Manager, and Assistant General Managers, and description of remuneration policies, standards, packages, procedures for setting remuneration, and linkage to performance.

##### 1. Total remuneration as a percentage of net income as paid by the company, during the past two fiscal years to its Directors, Supervisors, General Manager, and Assistant General Managers.

Title	Total remuneration as a percentage of net income				Increases or decreases %	
	2011		2010		HTC	All Consolidated Entities
	HTC	All Consolidated Entities	HTC	All Consolidated Entities		
Directors	0.04%	0.04%	0.05%	0.05%	-0.01%	-0.01%
Supervisors	0.006%	0.006%	0.01%	0.01%	-0.004%	-0.004%
President and Vice Presidents	1.99% (Note 1)	2.18% (Note 1)	4.21% (Note 2)	4.57% (Note 2)	-2.22%	-2.39%

Note 1: During the current fiscal year up to the date of printing of this annual report, distribution list of employee bonus has not been decided yet. Estimated amounts of 2011 employee bonus are calculated based on 2010 actual distribution ratio.

Note 2: Total remuneration for year 2010, related to amount of stock bonus, is calculated based on the closing price (NT\$1,150) one day prior to the 2011 Annual General Shareholders' Meeting on an ex-dividend basis (NT\$1,060).

##### 2. HTC's reward programs and policies are designed to support HTC's business strategy and the focus of performance differentiation. Our reward program and package is designed to be competitive within the markets to engage and motivate our people for the long term successes. In addition to country's fix bonuses (two-month salary in Taiwan for example), the Board of Directors hold the review and approval for extra performance bonus by reflect the company's performance when applicable.

## 2. The State of the Company's Implementation of Corporate Governance:

### (1) The State of Operations of The Board of Directors:

The Board of Directors conducted ten meetings in 2011. The Directors and Supervisors' attendance status is as follows :

Title	Name	Addendance in Person (B)	By Proxy	Attendance Rate in Person(%) [B/A]	Notes
Chairman	Cher Wang	9	1	90%	
Director	Wen-Chi Chen	9	1	90%	
Director	HT Cho	9	1	90%	
Director	Tan Ho-Chen	10	0	100%	
Director	David Bruce Yoffie	2	4	33.33%	Newly elected in 2011.06.15 Shareholders' meeting.
Independent Director	Chen-Kuo Lin	10	0	100%	
Independent Director	Josef Felder	4	6	40%	
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	10	0	100%	
Supervisor	Huang-ChiehChu	5	0	83.33%	Newly elected in 2011.06.15 Shareholders' meeting.
Supervisor	Caleb Ou-Yang	0	0	0%	Caleb Ou-Yang left office on 2012.05.07.
Supervisor	Po-Cheng Ko	2	0	100.00%	Po-Cheng Ko left office on 2011.04.20.

Other matters to be included:

- There was no independent director expressing opposition or reservation with respect to any Board of Directors meeting during the preceding fiscal year, and no written record or written statement of related board resolutions.
- Directors' abstention from discussion due to conflicts of interests in 2011:
  - Director: Cher Wang, Wen-Chi Chen  
Content of proposal: Discussion on the cooperation between the defendants in different Apple patent litigation matters, being Company and the related parties S3 Graphics Co., Ltd and S3 Graphics, Inc. ("S3G")  
Reason for abstention from voting participation: Chairman Cher Wang and Director Wen-Chi Chen are the related persons of S3 Graphics Co., Ltd, and S3 Graphics, Inc.-the trading counterpart under this proposal.
  - Director: Cher Wang, Wen-Chi Chen  
Content of proposal: To acquire the entire patent portfolio owned by S3 Graphics Co., Ltd. covering key graphics technologies, HTC proposes to purchase 100% stock share of S3 Graphics Co. Ltd. from VIABase Co., Ltd and WTI Investment International, Ltd. through increasing the capital of HTC Investment One (BVI) Corporation by an amount of US\$300 million  
Reason for abstention from voting participation: Chairman Cher Wang and Director Wen-Chi Chen are the related persons of VIABase Co., Ltd and WTI Investment International, Ltd.-the trading counterpart under this proposal.
  - Director: HT Cho  
Content of proposal: Proposal on the donation of NTD 300 million to HTC Cultural Educational Foundation and HTC Foundation.  
Reason for abstention from voting participation: Director HT Cho is Chairman of the HTC Cultural Educational Foundation and HTC Foundation-the subject recipients of the donation under this proposal.
  - Director HT Cho and Independent Director Chen-Kuo Lin  
Content of proposal: Proposal on the appointment of the Company's Compensation Committee members and the compensation of each Compensation Committee member.  
Reason for abstention from voting participation: Director HT Cho and Independent Director Chen-Kuo Lin are nominated candidates for the Company's Compensation Committee members.
- Measures taken to strengthen the functionality of the Board of Directors and the status of implementation during current and preceding fiscal years:
  - At the time of end-of-term elections for Directors and Supervisors in the 2010 fiscal year, HTC selected two Independent Directors in accordance with the provisions of the Securities and Exchange Act in order to strengthen the independence and functions of Directors and enhance the operational effectiveness of the Board. In 2008, the "Guidelines for Corporate Governance" were completed and adopted, guaranteeing that the Board of Directors has the authority to independently supervise corporate operations and to make all decisions necessary to fulfill its responsibilities to shareholders and to society.
  - In compliance with the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or traded over the counter as per Letter No. 1000009747 issued by the Executive Yuan Financial Supervisory Commission on March 18, 2011, the Company formulated the Compensation Committee Charter and under which appointing Independent Director Mr. Chen-Kuo Lin; Director Mr. HT Cho and independent professional advisor Mr. Harvey Chang to the Compensation Committee. The official functions of the Committee are to professionally and objectively evaluate the policies and systems for the compensation of HTC directors, supervisors, and managers, and submit recommendations to the board of directors for its reference in decision making.

- Currently, prior to the establishment of the audit committee, most of the committee's functions are performed by the Supervisors meetings. That is, in accordance with Article 14-5 of the Securities and Exchange Act, matters intended to be handled by the audit committee are first passed to the Supervisors meeting before submission to the Board of Directors for deliberation and voting. In addition, regular Supervisors meetings are convened on a quarterly basis to hear reports on important financial, legal, and internal audit matters. There is also a joint assessment between the Supervisors and CPA on the principles and appropriateness of various allowances and reserves in the financial statements.
- HTC has also been endeavoring in recent years to enhance the timeliness and transparency of its information disclosure. In addition to making timely posting of important financial and business information on the Market Observation Post System, HTC also convenes online investor conferences on a quarterly basis to allow investors timely access to information on the company's operations and performance. In December 2008, the HTC Investor Relations Website was revised. A special corporate governance page was added along with disclosures of financial information. HTC achieved "A+" rating for the first time in the sixth Information Disclosure and Transparency Ranking organized by the Securities and Futures Institute (SFI) and achieved "A+" rating for three consecutive years. In the seventh evaluation, HTC was recognized as one of the top 10 public companies with "A+" ratings. In four consecutive evaluations from the fifth Information Disclosure and Transparency Ranking, HTC was listed as one of the more transparent among exchange or OTC listed companies in making voluntary disclosure of information.

### (2) Supervisor participation in Board of Directors meetings

The Board of Directors conducted ten meetings in 2011. The Supervisors' attendance status is as follows :

Title	Name	Addendance in Person (B)	Attendance Rate (%) [B/A]	Notes
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	10	100%	
Supervisor	Huang-ChiehChu	5	83.33%	Newly elected in 2011.06.15 Shareholders' meeting.
Supervisor	Caleb Ou-Yang	0	0%	Caleb Ou-Yang left office on 2012.05.07.
Supervisor	Po-Cheng Ko	2	100.00%	Po-Cheng Ko left office on 2011.04.20.

Other matters to be included:

- Composition and Responsibilities of Supervisors:
 

The structure of the Supervisors' Meetings at HTC is well established and it carries out most functions at the audit committee.

  - Supervisor communication with employees and shareholders (e.g., channels and methods of communication)  
Supervisors can make use of channels such as Supervisors Meetings, Board of Directors meetings, Shareholders Meetings, and internal audit reports to communicate with management-level officers and with shareholders.
  - Supervisor communication with Chief Internal Auditor and CPAs (e.g., financial and operational matters on which they communicate, their methods, and results)  
HTC Supervisors communicate through their regular quarterly Supervisor Meetings with HTC's financial, legal, and internal audit officers, who report to the Supervisors on issues such as risk management, major litigations, and internal audit reports.  
Based on the principle of sound, conservative accounting, HTC's Supervisors and CPAs regularly undertake joint reviews of major account items in the financial statements to assess the reasonableness of basic assumptions underlying various allowances and reserves. Assessments are also performed and reserves taken against potential liabilities associated with intellectual property risks in order to reduce the impact on HTC's finances.  
Supervisors also hold regular private meetings with CPAs. Supervisors must first review and be satisfied with the CPA's independence and professional fees before such matters are submitted to the Board of Directors for resolution.  
In 2011, the management team continuously emphasized and provided full support on corporate governance. Headquarters actively reviewed and enhanced the processes of supervision and management of subsidiaries, and developed global policies and procedures. All departments in the company conducted risk-oriented internal control assessment to evaluate the controls' efficiency and effectiveness, for the purpose of improving the internal control system. In the area of internal control self-assessment, HTC has asked all departments to evaluate the efficiency and effectiveness of their controls' design and execution to ensure the concreteness and transparency of the internal control statement. All departments were required to issue individual internal control statements based on their evaluation results and the company would issue the internal control statement based on individual department evaluation results.
- If Supervisors in attendance at a Board meeting state opinions, the meeting date, session number, agenda, and result of resolutions must be noted, along with the company's handling of the Supervisors' opinions.  
Prior to each quarterly meeting of the Board of Directors, HTC convenes a Supervisors meeting at which important matters relating to finance, legal, and internal audit are reported to the Supervisors. The Supervisors in turn produce a quarterly Supervisors' report for submission to the Board. Important related-party transactions are first submitted to the Supervisors meeting, which must first review the transactions and issue an unqualified opinion before they are submitted for deliberation and resolution by the Board. There has been no instance of a Supervisor expressing a dissenting opinion regarding a Board resolution during the most recent fiscal year.

**(3) The State of the Company's Implementation of Corporate Governance, departures of such implementation from The Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies, and reasons for departures.**

Item	Implementation Status	Reason for Non-implementation
1. Shareholding structure & Shareholders' Rights		
(1) Method of handling shareholder suggestions or complaints	To protect shareholders' interests, HTC has appointed spokesperson and acting spokesperson to properly handle any questions, suggestions, or disputes involving shareholders.	None
(2) The Company's understanding of major shareholders and the ultimate owners of these major shareholders	The Company has a good understanding of its major shareholders through shareholder registers provided by stock agents at book closures. HTC also provides information regularly on pledges and the increase and decrease in shareholdings of shareholders with a more than 10% stake in the company.	None
(3) Risk management mechanism and "firewalls" between the Company and its affiliates	The division of responsibilities between HTC and its affiliates with respect to management of personnel, resources, and finances is clear. Risk assessments are rigorously performed and appropriate firewalls have been established. HTC conducts business with affiliates based on the principles of fairness and reasonableness and fully observe the operating Procedures for transactions with Specific Companies, Enterprise Groups and Related Parties and other related regulations. Terms and conditions, pricing, and payment methods are clearly prescribed in contracts to avoid non-arms-length transactions and financial tunneling. When it is necessary to eliminate non-competition restrictions on directors and managerial officers, requests are duly submitted to the Shareholders' Meeting and Board for approval.	None
2. Composition and Responsibilities of the Board of Directors		
(1) Independent Directors	At the end-of-term elections for Directors and Supervisors at the 2010 ordinary Shareholders' Meeting, HTC elected two Independent Directors in accordance with the provisions of the Securities and Exchange Act; the number of Independent Directors exceeds one-fifth of the total number of Directors.	None
(2) Regular evaluation of external auditors' independence	In 2008, HTC started to have its Supervisors review the independence of CPAs on an annual basis. Prior to submitting a proposal to change CPA to the Board, the CPA will be interviewed and his credentials reviewed by the Supervisors to assess his independence.	None
3. Communication with stakeholders	HTC provides detailed contact information, including telephone numbers and email addresses, in the "contact us" section of its corporate website. We also have personnel in place to exclusively deal with messages to the spokesperson and investor mailboxes so that various interested parties will have channels to communicate with HTC.	None
4. Information Disclosure		
(1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance	HTC has both Chinese and English websites. Investor information pages provide information on financial and business issues and corporate governance, while product information pages provide information relating to our products and services.	None
(2) Other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)	HTC has English and Chinese investor relations websites. Dedicated personnel have been assigned to collect and update information to websites. Chief Financial Officer Chialin Chang has been appointed spokesperson and a spokesperson email address has been established. An investors conference is convened online each quarter. Recording and presentation are posted on the company website after the conference.	None
5. Operation of the Company's Nomination Committee, Compensation Committee, or other functional committees of the Board of Directors	In compliance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or Traded Over-the-Counter" as per Letter No.1000009747 issued by the Financial Supervisory Commission of the Executive Yuan on March 18, 2011, the Board of Directors resolved to adopt the Company's Compensation Committee Charter and appoint Independent Director Mr. Chen-Kuo Lin; Director Mr. HT Cho and independent professional advisor Mr. Harvey Chang to the Company's Compensation Committee on December 22, 2011.	None
6. In 2008, HTC adopted the "Guidelines for Corporate Governance". Its provisions are based on the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies, and were drafted with reference to the corporate governance practices of companies in Taiwan and abroad with outstanding records in that area. Its purpose is to ensure that the Board has the authority to independently supervise corporate operations and to make all decisions necessary to fulfill its responsibilities to shareholders and society.		

(Continued)

Item	Implementation Status	Reason for Non-implementation
7. Other important information helpful to understanding HTC's corporate governance practices:		
(1) Employee rights and interests and employee care	<ul style="list-style-type: none"> <li>HTC's employee code of conduct provides rules and guidelines for employees to follow when involved in company operations. All employees of the company and its branches and subsidiaries, regardless of their position, level, or location, need to abide by this code of conduct. Any unlawful conduct, either at the company or otherwise is prohibited.</li> <li>HTC is committed to providing a safe and healthy work environment, to respecting individuals and offering fair equality of opportunity, and to protecting company assets and personal information.</li> <li>In Relations with Customers and Suppliers, HTC commits to maintaining long-term relationships on a fair and reasonable basis in order to create win-win partner relationships. In the Conflicts of Interest section, HTC provides principles of conduct to guide employees.</li> <li>HTC's hiring policies comply with the relevant laws and regulations and provide fair opportunities to applicants. Hiring decisions are based on HTC's operational needs, nature of the work, and applicants' abilities. Fair opportunities are provided to both applicants and employees. There will be absolutely no discrimination on the basis of nonwork-related factors, such as race, skin color, social position, language, belief, religion, political affiliation, family origin, gender, sexual orientation, marital status, appearance, facial features, mental or physical disabilities, previous union affiliation, or any other factor protected by government order.</li> <li>HTC management adheres firmly to the principles of respect for the individual, good faith, and responsibility. These principles are applied (but not limited) to recruitment, hiring, training, promotion, pay scales, benefits, transfers, and community activities.</li> <li>HTC is committed to providing employees with a working environment free of discrimination or harassment (including sexual harassment). Any form of speech or conduct intended to incite hatred, conduct which could lead to accidental injury, or discrimination, will be immediately reported to the responsible department for investigation and punishment.</li> <li>In addition to complying with legal requirements, HTC respects the privacy of its employees and protects their personal information, and never arbitrarily discloses personal data of employees. Employees are also expected to abide by this principle in their interactions, and to avoid discussing private matters or secret information of others (including but not limited to salary and bonus information).</li> </ul>	
(2) Investor relations	<ul style="list-style-type: none"> <li>HTC carries out its responsibility in the area of investor relations by endeavoring to enhance the transparency and timeliness of information disclosure. In addition to immediate announcement of material information and information disclosure, each quarter investor/press conferences are held in Chinese and English, with an average of more than 100 institutional investors from Taiwan and abroad participating. Information is also uploaded to the company website simultaneously.</li> <li>In addition to the regularly scheduled information disclosures above, HTC also actively participates in investment seminars held by local and overseas securities firms and investor/press conferences; it also arranges meetings with domestic and foreign investors in order to further explain financial figures and operational results that have already been publicly released. Also, more than ten international securities houses routinely publish analyst reports on HTC, providing investors with independent, professional investment analyses.</li> <li>HTC's investor relations activities in 2011, were as follows: Throughout the year, HTC frequently participated in investor conferences in Taiwan, Hong Kong, Singapore, New York, and Beijing, and periodically visited main investors in the European, American and Asia regions. At the same time, foreign and domestic institutional investors and analysts frequently visit our investor relations department or contact it by phone. Going forward, HTC will continue to advance its work in every aspect of investor relations in order to fulfill the responsibilities of a listed company toward its investors and shareholders.</li> </ul>	
(3) Supplier relations and rights of interested parties	HTC has adopted Procedures for Transactions with Specific Companies, Group Enterprises, and Related Parties to guarantee the rights and interests of HTC and interested parties. Purchasing contracts are also signed with suppliers to govern to transactions and cooperative efforts to protect the lawful rights and interests of all parties.	
(4) Professional development of Directors, Supervisors, and managerial officers:	HTC Directors and Supervisors voluntarily attend seminars held by professional training institutes as required by law and regulation. In addition, to further strengthen implementation of corporate governance, regular courses are also planned on finance, business, commerce, law, and accounting subjects that are related to corporate governance, as well as courses on internal control and responsibility in connection with preparation of financial reports. Details of professional development courses taken by Directors, Supervisors, and managerial officers for 2011 can be found in Appendixes 1 and 2.	
(5) Status of implementation of risk management policies and standards for measurement of risk:	HTC has adopted relevant risk management policies and standards for measurement of risk, and has established a dedicated unit to carry out risk management and risk measurement. With respect to implementation, HTC has reassessed its business risks after transitioning into a brand company. Risk factors are also reflected in financial statement items such as bad debts and warranty reserves which are reviewed by Supervisors and CPAs to ensure they are reasonable and appropriate.	

(Continued)

Item	Implementation Status	Reason for Non-implementation
	<ul style="list-style-type: none"> <li>HTC's management of potential risk associated with promotion of its global brand is explained below: <ol style="list-style-type: none"> <li>Exchange rate risk: Foreign exchange movements are monitored and managed / hedged by dedicated personnel. Reserves for on-book liabilities are valued at the exchange rate on the balance sheet date, reducing as much as possible the effects of currency fluctuations on HTC's business and finances.</li> <li>Receivables risk: Receivables risk is managed effectively by the finance department to ensure receivables quality and lower the risk of bad debt.</li> <li>Management of idle inventory: In addition to enhancing supplier management and demand forecast, idle inventory is attended to early and reserves for loss taken in an appropriate manner.</li> <li>Global tax risk: To comply with global tax compliance, our company engaged with international tax advisory for periodical review.</li> <li>Product design quality: To ensure quality of design, HTC has established a department for design quality, which is exclusively responsible for control and management of quality in hardware and software, product safety, and conformance with environmental regulations around the world. The department provides a complete range of product testing and certification.</li> </ol> </li> </ul>	
(6) Status of customer-protection policy implementation:	<ul style="list-style-type: none"> <li>HTC strictly abides by the contracts it signs with customers to protect consumer rights and interests. Regular deliberation on and assessment of the Product Warranty Reserve for after-sales services ensures that allocations made to such reserves are reasonably sufficient and warranty responsibilities of the Company are adequately expressed.</li> </ul>	
(7) Liability insurance provided by HTC to Directors and Supervisors:	<ul style="list-style-type: none"> <li>HTC amended its Articles of Incorporation by passage of a resolution at the 2006 ordinary Shareholders' Meeting. Article 16 of the amended Articles of Incorporation provides that the company may acquire liability insurance for all Directors and Supervisors throughout their term, within the scope of the indemnity liability they bear under the law in connection with their business responsibilities. Currently, HTC has purchased Liability Insurance for Directors, Supervisors, and key personnel (please see Appendix 3 for details), thereby transferring the risk arising from negligence or erroneous or improper conduct by Directors, Supervisors, or key personnel and enhancing the soundness of company management.</li> </ul>	
8. If the Company has a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows:	<ul style="list-style-type: none"> <li>As of 2011, HTC has not yet issued any corporate governance self-assessment report or engaged any other professional institute to perform a corporate governance assessment. It has become a member of the ROC's Corporate Governance Association (CGA). Regular participation of its Directors, Supervisors, and management-level personnel in the CGA's Directors and Supervisors Association provides opportunities for exchanges with government, business, and academia on topics such as enterprise orientation, strategy development, operations and management, and financial, legal, and corporate governance issues, thereby strengthening HTC's enterprise management and corporate governance.</li> </ul>	

(Concluded)

#### Appendix 1: Continuous Education/Training of Directors and Supervisors

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Chairman	Cher Wang	2011.10.28	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
Director	Wen-Chi Chen	2011.10.28	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
Director	HT Cho	2011.10.28	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
Director	Tan Ho-Chen	2011.08.26	2011.08.26	Taiwan Corporate Governance Association (TCGA)	Compensation Committee and Corporate Governance	3	
		2011.10.28	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
Director	David Bruce Yoffie	2011.10.28	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	Joined HTC on 15 June 2011.
Independent Director	Chen-Kuo Lin	2011.10.14	2011.10.14	Taiwan Corporate Governance Association (TCGA)	Setup and operation practices of Compensation Committee	3	
		2011.10.28	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
Independent Director	Josef Felder	2011.10.28	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
Juristic Person Supervisor: Representative	Shao-Lun Lee	2011.10.28	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
Supervisor	Huang-Chieh Chu	2011.10.28	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	Joined HTC on 15 June 2011.

#### Appendix 2: Continuous Education/Training of Management Team

Title	Name	Date of Training	Organization	Training	Hours	Notes
Chief Executive Officer & President	Peter Chou	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
President of Engineering and Operations	Fred Liu	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
General Counsel	Grace Lei	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
Associate Vice President	James Chen	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	
Chief Financial Officer	Winston Yung	2011.10.28	Taiwan Corporate Governance Association (TCGA)	Compensation Committee	3	Resigned on 16 April 2012.

#### Appendix 3: Directors, Supervisors and Key Personnel Liability Insurance

No	Insured Object	Insurance Company	Insured Amount (NT\$)	Insurance period	Notes
1	All Directors and Supervisors	Fubon Insurance Co., Ltd. (Insureds include HTC-appointed juristic person directors' representatives at investee companies and key personnel)	1,059,765,000	From : 2010.03.15 To : 2011.03.15	Insured Amount US\$: 35,000,000
2	All Directors and Supervisors	Fubon Insurance Co., Ltd. (Insureds include HTC-appointed juristic person directors' representatives at investee companies and key personnel)	1,059,765,000	From : 2011.03.15 To : 2012.03.15	Insured Amount US\$: 35,000,000

#### (4) Formation, scope of duties and operation of the Compensation Committee

HTC has duly formulated the Compensation Committee Charter, under which appointing Independent Director Mr. Chen-Kuo Lin, Director Mr. HT Cho and independent professional advisor Mr. Harvey Chang to the Compensation Committee. The Committee shall exercise the care of a good administrator to faithfully perform the following functions and present its recommendations to the board of directors for discussion:

- Periodically review the Compensation Committee Charter and propose suggestions for amendments.
- Prescribe and periodically review the policies, systems, standards, and structure for the annual and long-term performance goals and compensation of HTC directors, supervisors, and managers.
- Periodically assess the status of achievement of performance goals of HTC directors, supervisors, and managers, and set the content and amounts of their individual compensation.

Since 2012, the committee has conducted three meetings to review, guide and supervise HTC's compensation policies, systems, standards and structure, including Base Pay, Short-term Incentive plan and Long-term Incentive plan. The committee has scheduled the regular meetings for the rest of year 2012 to further review, supervise and recommend the payment of individual compensation for approval by the board of directors.



**(5) HTC's exercise of corporate social responsibility:**

Item	Implementation Status	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
<b>1. Exercising corporate governance</b>		
(1) The company's adoption of corporate social responsibility policies and systems, and its examination of the effectiveness of their implementation.	HTC puts environmental protection, health and safety, and energy conservation into practice in all aspects of our operations. We spare no effort to provide and maintain a safe and healthy work environment for our employees. We do so in order to create a better quality of life for our employees, customers, suppliers, and contractors, so that we may fulfill our corporate social responsibilities and achieve the goal of sustainable corporate development. HTC has now made basic commitments with respect to corporate social responsibility (CSR), and our general affairs department regularly reports to one of the directors on the HTC board regarding the results of their implementation. For a description of our CSR policies and a discussion of the effectiveness of their implementation, please see p. 80-93 of this year's annual report.	HTC has not yet adopted a CSR policy or system through passage by the Board of Directors.
(2) The operational status of the unit established by the company with exclusive or concurrent responsibility for CSR matters.	HTC has appointed a general affairs unit to be responsible for carrying out CSR-related operations, and has also engaged an outside professional institution, the AFNOR Group, to provide professional assistance in implementing CSR matters to further the effectiveness of HTC's CSR operations.	Through its general affairs department, HTC provides regular reports to a member of the Board of Directors regarding CSR-related operations and the status of their implementation, but does not regularly report to the full board of directors.
(3) The holding of business ethics training sessions and provision of guidance on related matters on a regular basis for directors, supervisors and employees, and the incorporation of business ethics into its employee performance appraisal system to establish a clear and effective reward and discipline system.	In June of 2010, HTC engaged the Securities and Futures Institute to provide training courses in corporate social responsibility (the principal component of CSR) to its directors and supervisors. HTC has also adopted an employee code of conduct to provide rules and guidelines for employees during their execution of company operations. All employees at HTC and its branches and subsidiaries, regardless of their position, rank, or location, are required to abide by this set of ethical standards.	HTC has not yet integrated business ethics and employee performance evaluations.
<b>2. Developing a sustainable environment</b>		
(1) The status of the company's efforts to improve its efficiency in the utilization of all resources and the use of recycled materials with low environmental impact.	Please refer to p. 80-93 of the annual report regarding CSR matters.	None
(2) The status of the company's establishment of environmental management systems appropriate to the nature of its industry.	Please refer to p. 80-93 of the annual report regarding CSR matters.	None
(3) The status of the company's establishment of dedicated environmental management units or personnel to maintain the environment.	HTC has established an environment and safety unit to be responsible for matters relating to environmental management and maintenance. It also obtains certification annually from a third-party certification institution with respect to its environmental protection and energy use.	None
(4) The status of the company's attention to the effects of climate change on its operations and its establishment of a company strategy for energy conservation and carbon and greenhouse gas reduction.	Please refer to p. 80-93 of the annual report regarding CSR matters.	None
<b>3. Protecting the public interest</b>		
(1) The status of the company's observance of the relevant labor laws and regulations, protection its employees' legal rights and interests, and establishment of appropriate management methods and procedures.	Please refer to p. 80-93 of the annual report regarding CSR matters.	None
(2) The status of the company's provision of a safe and healthy work environment for its employees and its provision of health and safety education to its employees on a regular basis.	Please refer to p. 80-93 of the annual report regarding CSR matters.	None
(3) The status of the company's formulation and public release of its policies on consumer rights and interests, and its provision of transparent and effective procedures for consumer complaints regarding its products and services.	HTC safeguards consumer rights and interests with various kinds of services and information. It provides channels of communication that allow consumers to contact HTC by many means, including the limited warranty sheet included in the HTC phone package, customer service contact numbers in all countries, a Taiwan customer service center contact info card, placing the telephone numbers and methods of connecting to its dedicated customer service lines on its official website, live customer chat service, customer service e-mail, home pickup and delivery service, and a customer service center address.	None
(4) The status of the company's cooperation with suppliers to jointly enhance corporate social responsibility.	Please refer to p. 80-93 of the annual report regarding CSR matters.	None

(Continued)

Item	Implementation Status	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
(5) The status of the company's participation in commercial activities, property endowments, volunteering of service or other free professional services, and participation in charitable events or events relating to community development.	Please refer to p. 80-93 of the annual report regarding CSR matters.	None
<b>4. Enhancing information disclosure</b>		
(1) The company's method of disclosure of relevant and reliable information relating to CSR.	HTC collects and compiles information on its CSR activities through a general affairs unit. An outside professional institution, the AFNOR Group, provides assistance to ensure the accuracy and reliability of the information disclosed.	None
(2) The status of the company's production of corporate social responsibility reports disclosing the implementation of CSR matters.	As of 2011, HTC has not yet prepared a separate CSR report. It currently discloses information on CSR-related operations and performance through its annual report.	HTC does not produce a corporate social responsibility report.
5. If the company has formulated a set of its own corporate social responsibility best practice principles in accordance with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies, please describe any discrepancies between their operation and the principles as adopted:	HTC has not yet adopted its own corporate social responsibility best practice principles; please refer to p. 80-93 of this year's annual report for a description of HTC's CSR-related operations.	
6. Any other important information helpful to understanding the company's CSR-related operations (such as the status of its systems, measures, or performance in CSR activities relating to the environment, participation in the community, contributions to society, social service, the public interest, consumer rights and interests, human rights, health and safety, and other CSR-related activities:	Please refer to p. 80-93 of this year's annual report for a description of HTC's CSR-related operations.	
7. If the company's products or its corporate social responsibility report have met the standards of a relevant certification institution, please indicate:	HTC has obtained ISO 14001 environmental management systems certification, OHSAS 18001 occupational health and safety management systems certification, and ISO 50001 energy management systems certification.	

(Concluded)

**(6) The status of the Company's exercise of good faith in management and adoption of related measures:**

HTC has always upheld the five major ideals of honesty, humble, simplicity, energy, and innovation as its highest criteria for operations. Everyone within the company, from the highest levels to the lowest, is asked to strictly uphold the spirit of these five ideals, as well as abiding by all laws, regulations, and rules. HTC has also formulated internal rules to ensure the exercise of good faith in management and the observance of laws and regulations.

**(7) For information on HTC's Guidelines for Corporate Governance and other codes of practice, please refer to the HTC website at [www.htc.com](http://www.htc.com).**

**(8) Other important information helpful to understanding HTC's corporate governance:**

Due to a number of factors, including the shift in HTC's principal business operations in recent years to own-brand manufacturing, the growing scale of its operations, and the continued expansion of overseas subsidiaries, HTC has continued to examine and revise or adopt new rules and procedures which will enhance the efficiency of its operations and strengthen risk management and corporate governance. Over the recent years, in line with the formulation or amendment of relevant securities laws and regulations, and in consideration of operational needs, HTC has adopted or revised its "Procedures for Board of Directors Meetings", "Procedures for the Acquisition or Disposal of Assets", "Procedures for the Handling of Derivatives Trading", "Guidelines for Corporate Governance", "Procedures for Shareholders' Meetings", "Bylaws for the Election of Directors and Supervisors", and "Compensation Committee Charter". In addition, it has also adopted the "Detailed Guidelines for the Handling of Derivatives Transactions", "Credit Policy and Operation Procedures", and "Rules for Assignment of Directors and Supervisors at Investee Companies", and revise implementation rules that guide its internal operations, such as the "Specific Companies, Enterprise Groups and Related Parties", "Budget Management Procedures", "Corporate Bylaws for Subsidiaries" and "Operational Procedures for Handling Material Inside Information, and Prevention of Insider Trading". Latest drafts and amendments of the "Operating Procedures for the Handling of Material Inside Information and Prevention of Insider Trading" are sent to all HTC employees via e-mail posted on the internal website. The most updated version is posted on both the corporate website and internal website. New employees are also trained on the prevention of insider trading.

**(9) The state of implementation of HTC's internal control system:**

**1. Statement on Internal Control :**

HTC Corporation

**Internal Control System Statement**

Date: 03/19/2012

The Company states the following with regard to its internal control system for 2011, based on the findings of a self-evaluation:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguarding of asset security), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" promulgated by the Financial Supervisory Commission, Executive Yuan (hereafter, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has evaluated the design and operating effectiveness of its internal control system according to the forementioned criteria.
5. Based on the findings of the evaluation mentioned as of 12/31/2011, the Company believes that during the stated time period its internal control system (including its supervision of subsidiaries), encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This statement has been passed by the Board of Directors Meeting of the Company held on 03/19/2012, in which all of the seven attending directors affirmed the content of this Statement.

HTC Corporation.



Chairman: Cher Wang



President: Peter Chou



**2. External auditors' opinion on HTC's internal control: Not applicable.**

**(10) For the most recent fiscal year and during the current fiscal year up to the date of printing of this annual report, there were no sanctions imposed upon the Company or its internal personnel.**

**(11) Material Resolutions of the 2011 Shareholders Meeting and Board of Directors Meetings during the most recent fiscal year and the current fiscal year up to the date of printing of this annual report.**

Item	Date	Material resolutions	Note
Year 2011			
Board of directors meeting	2011.01.21	1. Adopted resolution to convene the 2011 Annual General Shareholders Meeting, meeting date, time, and place, the submission period and place for shareholders' proposals. 2. Adopted resolution for the capital expenditure and the capital injection in the subsidiary HTC Electronics (Shanghai) Co., Ltd.	
Board of directors meeting	2011.03.17	1. Adopted resolution for the adjusted budget for the office building construction plan in Taoyuan.	
Board of directors meeting	2011.04.30	1. Adopted resolution for Fiscal 2010 earnings distribution proposal. 2. Adopted resolution for capital increase through retained earnings and employee bonuses and issuance of new shares. 3. Adopted resolution to amend the agenda for convening the 2011 Annual General Shareholders Meeting of the Company. 4. Adopted resolution for the acquisition of 8 lots of land (lot number 1896 et al, etc.) located in Taoyuan City, Dashulin Section adjacent to the Taoyuan headquarters. 5. Adopted resolution for the replacement of Company's Spokesperson. 6. Adopted resolution for the resignation of Company's Internal Audit Officer. 7. Adopted resolution for the subsidiary in the US to purchase land and construct an office building. Resolution resolved to authorize the Chairperson and a specific person appointed by the Chairperson to execute and process the relevant details of the land purchase and office building construction within a budget authorized by the board of directors.	
Shareholders meeting	2011.06.15	1. Adoption of the Fiscal 2010 Business Report and Financial Statement 2. Adoption of the Fiscal 2010 Earnings Distribution Proposal 3. Adopted resolution for discussion of the proposal to allocate earnings and employee bonuses to a capital increase and issuance of new shares 4. Adopted resolution for discussion of the proposal to amend the Articles of Incorporation 5. Adopted resolution for discussion of the proposal to amend the Procedures for the Acquisition or Disposal of Assets 6. Adopted resolution for election of one additional member to the Board of Directors and by-election of one supervisor 7. Adopted resolution to release a Director from non-competition restrictions	Please refer to the notes for an execution summary of the material resolutions of the shareholders meeting.
Board of directors meeting	2011.07.06	1. Adopted resolution to adopt a date of record for the distribution of dividends as well as the dates of the capital increase, the closing period for the share transfer and the delivery date of cash dividends. 2. Adopted resolution to acquire the entire patent portfolio owned by S3 Graphics Co., Ltd. covering key graphics technologies, HTC proposes to purchase 100% stock share of S3 Graphics Co. Ltd. from VIABase Co., Ltd and WTI Investment International, Ltd. through increasing the capital of HTC Investment One (BVI) Corporation by an amount of US\$300 million. 3. Adopted resolution to invest USD 100 Million in Primavera Capital (Cayman) Fund I L.P. (Fund I) which is managed by Primavera Capital Management Ltd. through capital increment of HTC Investment One (BVI) Corporation.	
Board of directors meeting	2011.07.16	1. Adopted resolution for the repurchase of the Company's shares and transfer of such shares to employees. 2. Adopted resolution for the repurchase of the Company's shares and cancellation of such shares.	
Board of directors meeting	2011.10.28	1. Adopted resolution to change repurchase purpose of treasury stock from transferring to employees to cancellation of shares. 2. Adopted resolution to change repurchase purpose of treasury stock from cancellation of shares to transfer to employees. 3. Adopted resolution for the capital injection of US\$ 82 million in High Tech Computer Asia Pacific Pte. Ltd. and for the capital injection of an equivalent amount thereof in the subsidiary in Luxembourg, HTC Luxembourg S.a.r.l., through the current investment framework.	
Board of directors meeting	2011.12.20	1. Adopted resolution for the repurchase of the Company's shares and transfer of such shares to employees.	
Board of directors meeting	2011.12.22	1. Adopted resolution on the appointment of the Company's internal audit officer. 2. Adopted resolution for registering a change of share status to write-off 10,000,000 shares of the Company's treasury stocks and setting the record date for the reduction of paid-up capital. 3. Adopted resolution to adopt the Company's Compensation Committee Charter. 4. Adopted resolution on the appointment of the Company's Compensation Committee members.	
Year 2012			
Board of directors meeting	2012.02.14	1. Adopted resolution for the date, time and venue for the Company's 2012 Annual General Shareholders Meeting, and the submission period and address for shareholders' proposals.	
Board of directors meeting	2012.04.16	1. Adopted resolution for change of Company's Chief Financial Officer and Spokesperson	
Board of directors meeting	2012.04.23	1. Adopted resolution for Fiscal 2011 earnings distribution proposal. 2. Adopted resolution to amend the agenda for convening the 2012 Annual General Shareholders Meeting of the Company.	

Note 1: Acting pursuant to resolutions adopted at the 2011 regular shareholders meeting regarding the earnings distribution proposal and the earnings capitalization proposal, HTC completed the following actions in 2011: an amendment registration to reflect its capitalization of earnings; distributions of cash and stock dividends; and distributions of employee bonus shares and cash bonuses.

Note 2: Acting pursuant to a resolution adopted at the 2011 regular shareholders meeting regarding the proposal to amend the HTC Articles of Incorporation and the election of one additional member to the Board of Directors and the by-election of one supervisor, HTC has completed an amendment registration with the Ministry of Economic Affairs.

**(12) Where, during the most recent fiscal year and current fiscal year up to the date of printing of this annual report, a Director or Supervisor has expressed a dissenting opinion with respect to a material resolution passed by the board of directors and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof:**

Item	Date	Material resolutions	Opinion from the Director or Supervisor
Board of directors meeting	2011.07.06	Adopted resolution to invest USD 100 Million in Primavera Capital (Cayman) Fund I L.P. (Fund I) which is managed by Primavera Capital Management Ltd. through capital increment of HTC Investment One (BVI) Corporation.	Director David Bruce Yoffie reserved his comments toward this proposal and abstained from voting on this proposal by proxy.

**(13) Summary of Resignations and Dismissals:**

Item	Resolution	
Type of personnel change	Principal Financial Officer	Internal Audit Officer
Dismissal date	2012.04.16	2011.04.30
Name and title of the replaced person	Winston Yung, Chief Financial Officer and Spokesperson	Vincent Tseng, Director of Internal Audit and Organization Optimum Division
Office date	2012.04.16	2011.12.22
Name and title of the replacement	Chialin Chang, Chief Financial Officer and Spokesperson	Ken Wang, Director of Internal Audit and Organization Optimum Division
Reason for the change	Personal position adjustment	Vincent Tseng resigned due to personal career planning

**3. Information on CPA professional Fees:**

**Scale of Information on CPA professional fees**

Accounting Firm	Name of CPA	Audit Period	Note
Deloitte & Touche	Ming-Hsien Yang, Tze-Chun Wang	Years Ended December 31, 2011	

Scale of Fee	Item		
	Audit Fee	Non-Audit Fee	Total Fee
1 Under NT\$ 2,000,000			
2 NT\$ 2,000,000~NT\$ 4,000,000			
3 NT\$ 4,000,000~NT\$ 6,000,000		✓	
4 NT\$ 6,000,000~NT\$ 8,000,000			
5 NT\$ 8,000,000~NT\$ 10,000,000			
6 Over NT\$ 10,000,000	✓		✓

**Information on CPA professional fees**

**(1)The amounts of both audit and non-audit fees as well as details of non-audit services are disclosed as follows:**

Unit:NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					CPA's Audit Period	Note
			System Design	Company Registration	Human Resource	Others (note)	Subtotal		
Deloitte & Touche	Ming-Hsien Yang Tze-Chun Wang	10,620	-	86	-	5,570	5,656	Years Ended December 31, 2011	Transfer pricing report, international tax consultation and CPA opinion on earnings capitalization.

**(2) The company does not change its accounting firm.**

**(3) Audit fees paid for the current year are not lower than those for the previous fiscal year by 15 percent or more.**

**4. The company does not replace its certified public accountant within the last two fiscal years or any subsequent interim period.**

**5. The company's Chairperson, General Manager, or any Managerial Officer in charge of finance or accounting matters has not in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm.**

**6. Transfer of equity interests and/or pledge of or change in equity interests by a Director, Supervisor, Managerial Officer, or shareholder with a stake of more than 10 percent during the most recent fiscal year and the current fiscal year up to the date of printing of this annual report.**

**(1) Changes in shareholdings of Directors, Supervisors, Managers, and Major Shareholders**

Unit : Shares

Title	Name	2011		2012.01.01 - 2012.04.14	
		Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Chairman	Cher Wang	1,298,687	0	0	0
Director	HT Cho	6,930(6,000)	0	0	0
Director	Wen-Chi Chen	1,066,256	0	0	0
Director	Tan Ho-Chen	0	0	0	0
Director (note1)	David Bruce Yoffie	0	0	0	0
Independent Director	Chen-Kuo Lin	0	0	0	0
Independent Director	Josef Felder	76,380	0	0	0
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	2,086,632	0	0	0
Supervisor (note2)	Huang-Chieh Chu	0	0	0	0
Chief Executive Officer & President	Peter Chou	483,373(180,000)	0	0	0
President of Engineering and Operations	Fred Liu	269,792(106,000)	0	0	0
President of Global Sales and Marketing	Jason Mackenzie	111,600(73,815)	0	0	0
Chief Operating Officer	Matthew Costello	60,000(10,000)	0	0	0
Chief Engineering Officer	David Chen	92,632(167,000)	(250,000)	0	0
Chief Marketing Officer	John Wang	38,320(117,000)	0	0	0
Chief Product Officer	Kouji A. Kodera	56,867(9,920)	0	0	0
General Counsel	Grace Lei	42,752(22,000)	0	0	0

(Continued)



Title	Name	2011		2012.01.01 - 2012.04.14	
		Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Vice President	CS Wang	43,783(113,000)	0	0	0
Vice President	Georges Bouloy	44,200	0	0	0
Vice President (note 3)	Gregory Fisher	10,000	0	0	0
Vice President	Lotus Chen	43,524(73,000)	0	0	0
Vice President	Simon Hsieh	41,000(47,000)	0	0	0
Vice President, Studio Engineering	Simon Lin	43,250(101,452)	0	0	0
Vice President	WH Liu	43,127(70,000)	0	0	0
Associate Vice President	Jim Lin	25,776(89,000)	0	0	0
Associate Vice President	Steve Wang	35,400(25,150)	0	(17,000)	0
Associate Vice President (note 4)	Thomas Chien	40,000	0	0	0
Associate Vice President	James Chen	14,450(12,000)	0	0	0
Associate Vice President	Edward Wang	13,340(22,000)	0	0	0
Director	Joey Cheng	13,000(20,600)	0	0	0
President/ EMEA Region	Florian Seiche	64,676(93,240)	0	(18,000)	0
President/ North Asia	Jack Tong	81,993(23,000)	0	0	0
Head of HTC Communication, China (note 5)	Ray Yam	15,000(2,250)	0	0	0
Supervisor (note 6)	Po-Cheng Ko	0	0	--	--
Supervisor (note 7)	Caleb Ou-Yang	0	0	0	0
Chief Financial Officer (note 8)	Winston Yung	30,000	0	(6,000)	0
Chief Innovation Officer (note 9)	Horace Luke	(81,063)	0	--	--
Chief Strategy Officer (note 10)	Ronald Allen Louks	50,692(10,731)	0	(20,000)	0
Chief Information Officer (note 11)	Eric Chou	21,546(18,000)	0	0	0
Vice President (note 12)	Shashi Fernando	20,000(4,080)	0	--	--
Associate Vice President (note 13)	Cliff Chou	(15,000)	0	--	--
Associate Vice President (note 14)	Ralph Wang	10,125(23,000)	0	--	--
Special Assistant of Procurement Division (note 15)	Kenny Tseng	5,378(10,000)	0	--	--
Director (note 16)	Vincent Tseng	(25,000)	0	--	--

(Concluded)

- Note 1: David Bruce Yoffie took office on June 15, 2011.  
Note 2: Huang-Chieh Chu took office on June 15, 2011.  
Note 3: Gregory Fisher took office on February 21, 2011.  
Note 4: Thomas Chien took office on April 1, 2011.  
Note 5: Ram Yam took office on March 17, 2011.  
Note 6: Po-Cheng Ko left office on April 20, 2011.  
Note 7: Caleb Ou-Yang left office on May 7, 2012.  
Note 8: Winston Yung took office on January 1, 2011 and left office on April 16, 2012.  
Note 9: Horace Luke left office on April 30, 2011.  
Note 10: Ronald Allen Louks left office on February 14, 2012.  
Note 11: Eric Chou left office on March 16, 2012.  
Note 12: Shashi Fernando took office on May 8, 2011 and left office on December 22, 2011.  
Note 13: Cliff Chou left office on March 1, 2011.  
Note 14: Ralph Wang left office on October 28, 2011.  
Note 15: Kenny Tseng left office on July 6, 2011.  
Note 16: Vincent Tseng left office on April 30, 2011.

## (2) Stock transfer with related party:

Name	Reason for Transfer	Date of Transaction	Party to Transaction	Relationship of other party in Transaction to Company, Director, Supervisor and Shareholder holding 10% or more of the total number of shares issued by the Company	shares	Price
Fred Liu	Gift	2011.08.22	Wan-Yun Liu	Children	25,000	-

## (3) Stock Pledged with related party:

None

## 7. Related parties, as defined in the Statement of Financial Accounting Standards No. 6, among the Company's 10 largest shareholders.

2012.04.14

Name (Note 1)	Shareholding		Shareholding under spouse and children of minor age		Shareholding under the title of third party		Top 10 shareholders who are related parties to each other. (Note 2)		Note
	shares	%	shares	%	shares	%	Name	Relationship	
Way-Chih Investment Co., LTD.(Representative: Su-Lan Chiang)	43,819,290	5.14%	0	0.00%	0	0.00%	• Way-Lien Technology Inc. • Hon-Mou Investment Co., Ltd.	• Same chairman • Same chairman	
Way-Lien Technology Inc. (Representative: Su-Lan Chiang)	37,808,231	4.44%	0	0.00%	0	0.00%	• Way-Chih Investment Co., LTD. • Hon-Mou Investment Co., Ltd.	• Same chairman • Same chairman	
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	36,964,010	4.34%	0	0.00%	0	0.00%	None	None	
Cher Wang	27,272,427	3.20%	22,391,389	2.63%	0	0.00%	• Wen-Chi Chen	• Spouse	
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital World Growth and Income Fund	26,563,050	3.12%	0	0.00%	0	0.00%	None	None	
Hon-Mou Investment Co., Ltd.(Representative: Su-Lan Chiang)	22,900,081	2.69%	0	0.00%	0	0.00%	• Way-Chih Investment Co., LTD. • Way-Lien Technology Inc.	• Same chairman • Same chairman	
Wen-Chi Chen	22,391,389	2.63%	27,272,427	3.20%	0	0.00%	• Cher Wang	• Spouse	
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital Income Builder	18,151,973	2.13%	0	0.00%	0	0.00%	None	None	
JPMorgan Chase Bank N.A. Taipei Branch in custody for Oppenheimer Developing Market Fund	16,035,127	1.88%	0	0.00%	0	0.00%	None	None	
Government of Singapore	15,726,300	1.85%	0	0.00%	0	0.00%	None	None	

- Note 1: The top 10 shareholders shall all be listed; for institutional shareholders, the name of the entity and the name of its representative shall be listed separately.  
Note 2: Mutual relationships of shareholders, including judicial and natural persons, shall be disclosed.

## 8. Total number of shares and total equity stake held in the same enterprise by the Company, its Directors and Supervisors, Managers directly or indirectly

2011.12.31 Unit: share; dollar;%

Long-term investments (Note)	Investments by HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
H.T.C. (B.V.I.) Corp.	778,768,058 shares	100%	0	0%	778,768,058 shares	100%
HTC America, Inc.	0	0%	1,000 shares	100%	1,000 shares	100%
HTC EUROPE CO., LTD.	0	0%	234,286,633 shares	100%	234,286,633 shares	100%
High Tech Computer (SuZhou) Co., Ltd.	0	0%	USD20,000,000 (NTD662,388 thousand)	100%	USD20,000,000 (NTD662,388 thousand)	100%
Exedea Inc.	0	0%	100 shares	100%	100 shares	100%
HTC NIPPON Corporation	0	0%	1,000 shares	100%	1,000 shares	100%
HTC Brasil	0	0%	1,987,399 shares	100%	1,987,399 shares	100%
HTC Corporation (Shanghai WGQ)	0	0%	USD1,500,000 (NTD49,845 thousand)	100%	USD1,500,000 (NTD49,845 thousand)	100%
HTC HK, Limited	0	0%	823,145,430 shares	100%	823,145,430 shares	100%
HTC Belgium BVBA/SPRL	0	0%	18,550 shares	100%	18,550 shares	100%
HTC Italia SRL	0	0%	EUR10,000 (NTD422 thousand)	100%	EUR10,000 (NTD422 thousand)	100%
Communication Global Certification Inc.	20,000,000 shares	100%	0	0%	20,000,000股	100%
PT. High Tech Computer Indonesia	1,875 shares	1%	185,625 shares	99%	187,500 shares	100%
High Tech Computer Asia Pacific Pte. Ltd.	596,034,059 shares	100%	0	0%	596,034,059 shares	100%
High Tech Computer (H.K.) Limited	0	0%	2,000,000 shares	100%	2,000,000 shares	100%
HTC (Australia and New Zealand) Pty. Ltd.	0	0%	400,000 shares	100%	400,000 shares	100%
HTC Philippines Corporation	0	0%	858,767 shares	100%	858,767 shares	100%
HTC India Private Limited	0	0%	500,000 shares	100%	500,000 shares	100%
HTC Investment Corporation	30,000,000 shares	100%	0	0%	30,000,000 shares	100%
HTC Electronics (Shanghai) Co., Ltd.	0	0%	USD101,000,000 (NTD3,162,105 thousand)	100%	USD101,000,000 (NTD3,162,105 thousand)	100%
HTC (Thailand) Limited	0	0%	10,000,000 shares	100%	10,000,000 shares	100%
One & Company Design, Inc.	0	0%	60,000 shares	100%	60,000 shares	100%
HTC Malaysia Sdn. Bhd.	0	0%	25,000 shares	100%	25,000 shares	100%
HTC Innovation Limited	0	0%	5,000 shares	100%	5,000 shares	100%
HTC Communication Co., Ltd.	0	0%	USD27,500,000 (NTD891,326 thousand)	100%	USD27,500,000 (NTD891,326 thousand)	100%
HTC I Investment Corporation	29,500,000 shares	100%	0	0%	29,500,000 shares	100%
HTC Holding Cooperatief U.A.	EUR280 (NTD13 thousand)	1%	EUR317,671,070 (NTD11,535,268 thousand)	99%	EUR317,671,350 (NTD11,535,281 thousand)	100%
HTC Netherlands B.V.	0	0%	55,110,337 shares	100%	55,110,337 shares	100%
Huada Digital Corporation	25,000,000 shares	50%	0	0%	25,000,000 shares	50%
HTC France Corporation	0	0%	6,500,000 shares	100%	6,500,000 shares	100%

(Continued)

Long-term investments (Note)	Investments by HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
HTC America Holding, Inc.	0	0%	41,117,151 shares	100%	41,117,151 shares	100%
HTC America Innovation, Inc.	0	0%	1,000 shares	100%	1,000 shares	100%
HTC South Eastern Europe LLC.	0	0%	150 shares	100%	150 shares	100%
HTC Nordic ApS	0	0%	80,000 shares	100%	80,000 shares	100%
Abaxia	0	0%	805,716 shares	100%	805,716 shares	100%
HTC BLR	0	0%	USD20,000 (NTD660仟元)	100%	USD20,000 (NTD660仟元)	100%
HTC Poland sp. z o.o.	0	0%	4,687 shares	100%	4,687 shares	100%
HTC Germany GmbH	0	0%	25,000 shares	100%	25,000 shares	100%
HTC Iberia, S.L.	0	0%	3,006 shares	100%	3,006 shares	100%
HTC Communication Canada, Ltd.	0	0%	500,000 shares	100%	100,000 shares	100%
HTC Rus LLC	0	0%	RUB 9,900 (NTD10仟元)	99%	RUB 9,900 (NTD10 thousand)	99%
HTC Communication Sweden AB	0	0%	1,000,000 shares	100%	1,000,000 shares	100%
HTC Norway AS	0	0%	780,000 shares	100%	780,000 shares	100%
HTC Luxembourg S a r. l.	0	0%	12,500 shares	100%	12,500 shares	100%
Saffron Media Group Ltd.	0	0%	1,634,870,016 shares	100%	1,634,870,016 shares	100%
Saffron Digital Ltd.	0	0%	296,638,744 shares	100%	296,638,744 shares	100%
Saffron Digital Inc.	0	0%	76,000 shares	100%	76,000 shares	100%
HTC America Content Services, Inc.	0	0%	1,000 shares	100%	1,000 shares	100%
HTC Communication Technologies (Shanghai) Limited	0	0%	USD400,000,000 (NTD120,799 thousand)	100%	USD400,000,000 (NTD120,799 thousand)	100%
HTC Investment One (BVI) Corporation	309,500,000 shares	100%	0	0%	309,500,000 shares	100%
S3 Graphics Co., Ltd.	0	0%	NTD9,033,450 thousand	100%	NTD9,033,450 thousand	100%
Dashwire, Inc.	0	0%	100 shares	100%	100 shares	100%
Inquisitive Minds, Inc.	0	0%	100 shares	100%	100 shares	100%
Beats Electronics, LLC	0	0%	52,059 shares	50.14%	52,059 shares	50.14%

Note: HTC Long-term Investments.

(Concluded)

## 9. Corporate Social Responsibility Report

HTC upholds the ideals of comprehensive environmental protection, health and safety, and energy management, and we strive to provide and maintain a safe and healthy working environment for our employees. In line with these basic commitments, HTC will abide by the following basic ideas, in order to create a better quality of life for its employees, customers, suppliers, and contractors, and to achieve the goal of sustainable corporate development:

- HTC values equally environmental protection, safety and health, production, quality and effective energy management.
- HTC values equally the safety and health of its employees, customers, suppliers and contractors.
- HTC requires that its employees comply with guidelines and operation procedures regarding environmental protection, safety and health, and energy management.
- HTC commits to eliminate any foreseeable risks and to carry out damage control.
- HTC abides by the requirements of relevant laws and regulations.
- HTC will, through continuous improvement, carry out and maintain the systems for environmental protection, safety and health, and energy management.

To carry out balanced development in environmental protection, safety and health, energy-use efficiency, and corporate social responsibility, to implement its consistent business philosophy of "honest business operations, employee care, environmental protection, and giving back to the society," and to encourage all HTC employees to work together to fulfill the responsibilities of a corporate citizen, HTC hopes to realize the following commitments:

- HTC will scrupulously abide by all local laws and regulations.
- HTC will protect employees' work-related rights and interests and ensure fair employment opportunities.
- HTC will actively participate in energy saving, carbon reduction, and environmental protection.
- HTC will be transparent in its management.
- HTC will continue to innovate in products and services to raise the level of customer satisfaction.
- HTC will enhance shareholder interests, while supporting underprivileged groups, charitable and public service activities.

HTC maintains excellent corporate governance, fulfills the responsibilities of a corporate citizen, and upholds a high ethical standard.

As part of its policy of sustainable management, HTC must respond to increased production levels and the growth in its workforce as an aspect of the environmental, safety, and health issues at its plants. Each year, HTC has received affirmation from third-party certification institutions for effective implementation in its plants of the ISO14001, OHSAS 18001 and ISO50001 standards. HTC also continues to strengthen its corporate social responsibility (CSR) efforts in environmental protection and efficient use of energy.

In addition to the efforts to implement energy-saving measures at its production facilities in Taoyuan and in completing carbon emissions inventory and inspection there, HTC has further extended such measures to other facilities and completed carbon emissions inventory and inspection management for 2008 - 2011. HTC also hopes to use the ISO 5001 energy management standard for effective management and reduction of carbon emissions and their resulting impact on global climate change.

In energy saving, HTC is reducing electricity use by implementing time-controlled lighting, installing infrared sensor switches, and replacing T8 lighting with energy saving T5 fixtures in plants and offices. From 2010, it has successively converted to the use of energy saving LED lighting in its newly built offices and plants in Taoyuan, Xindian, and Tainan.

HTC continues to reduce the volume of general industrial waste resulting from its manufacturing processes and to increase resource recycling. The actual recycling rate for HTC mobile phones, including reuse and recovery rates and recycling and recovery rates, far exceeds the requirements of the EU WEEE (Waste Electrical and Electronic Equipment) standards.

In the area of health and safety, HTC strives to reduce the disabling injury frequency and severity rates by assessing risks and then adopting necessary response measures, in order to reduce the rate of accidents occurring due to manufacturing processes, equipment, working environment, or chemical exposure.

The aforementioned efforts in environmental protection, safety and health, and energy efficiency clearly demonstrate HTC's emphasis on and concern for its social responsibility. This report lists HTC's efforts in ISO management systems, employee care, environmental protection, and charitable activities, as follows, as part of attaining the goal of sustainable management.

### (1) Employee Health and Care

#### 1-1. Healthy work environment

- (1) In order to provide a healthier work environment for its employees, HTC has set up a health center to provide employee health care, wellness promotion, health management, and related consulting. Regular checkups are provided (new employee physical exams, yearly exams, and special exams). Health management includes setting up basic health data files, follow-up exams and tracking for reported problems, analysis of yearly check-up data, management of chronic conditions, and interviews and follow-up on special conditions. Other services provided to help safeguard employee health include first-aid training, health care provided through consultation with a resident physician, prevention of occupational illnesses, epidemic prevention, and sharing of health education information.
- (2) Lifestyle diseases are usually the result of a buildup of long-ignored danger signals. HTC's health center works together with other health care providers to help track and provide diagnosis and treatment to employees belonging to high-risk groups, and assists employees with prevention and management of any such conditions through accurate understanding and lifestyle changes. In addition, with facilities such as the health center, library, fitness center, massage rooms/stations, and multi-sport playing field, HTC also provides employees with outlets for relieving pressure so that they can develop the habit of exercising and taking care of their own well-being.
- (3) The HTC fitness center, parent-child activities area, and outdoor multi-sport playing field are open full-time during holidays for use by employees and their families, providing a space for the employees to enjoy leisure activities, and to enhance employees' family and parent-child relationships.
- (4) HTC also creates a smoke-free working environment, providing information on giving up tobacco and activities for smokers wanting to quit.
- (5) Through promoting awareness of a healthy diet by the HTC health center and with the help of meal suppliers, HTC provides its employees with information on healthy diets, with the goal that, through proper healthy diets, its employees can reduce the impacts of modern "diseases of civilization," and metabolic syndromes.

#### 1-2. Plans and Measures for Health Promotion

Employees are HTC's greatest assets and the key to its competitive strength. By drafting a strategy for health promotion that encourages self-health management on the part of employees, HTC is paying close attention to its employees' physical, mental and social wellness. Through the monitoring of health risks, implementation of health promotion, and the resulting increases in productivity, HTC hopes to create a corporate culture that generates mutual benefits for both the company and the employees.

##### (1) Annual Health Promotion Plan

Key points of the plan:

- Discover major health issues through medical checkups, and the currently available corresponding solutions.
- Establish annual health themes, health promotion projects, and relevant briefing data.
- Establish employee life assistance programs (spiritual and social), and relevant promotion materials.
- Attention to occupational diseases that may arise from special work operations, and the subsequent follow-up tracking.
- Organize lectures on health topics (a total of 66 lectures on various topics regarding health promotion took place for the year of 2011).
- Expand information on health education.
- Set up a breastfeeding room.
- Health screening.
- Promote blood donations.
- Description and photos of the medical promotion project themes implemented with the assistance of resident physicians.

##### (2) Health Care and Management

- Establish a health center to coordinate and plan for employees' health related affairs.
- Health promotion target: promotion of healthy diet and exercise.
- Health examinations: general medical checkups for employees, medical checkups for special work personnel, MRI checkups for senior management.
- Health management: follow-up exams and tracking for reported health problems, and a hotline for emergency medical care, 831919, in order to handle demands for emergency medical care.
- Organize lectures on health promotion.
- Medical care: in-house medical personnel (at Xindian facilities) provide consulting on health.
- Establish a website for health related information, and a dedicated area for health related issues.
- Establish rules for reporting contagious diseases that take place in the plants.

- Establish epidemic control information and management mechanisms for contagious diseases.
- Inspection of the medical checkups for meal-providing, outsourcing, and contractor personnel.

### (3) Medical Checkups for Employees

HTC provides the following medical checkup services through contracted institutions:

- Medical checkups once every two years.
- MRI checkups.
- Medical checkups for personnel in special work.
- Foreign employees' medical checkups are also under supervision and standardized.
- HTC has entered into a contract with medical checkup providers to include employees' families in the discount plan for medical checkups.

### (4) Employee Life Assistance Programs

- HTC achieves the goal of caring for its employees through four steps:
  - Step 1: Primary Prevention (printed materials)
  - Step 2: Primary Prevention (promoting awareness)
  - Step 3: Secondary Prevention (department heads consultation services)
  - Step 4: Tertiary Prevention (employee psychological counseling services)
- Psychological counseling: including areas of work and career, family and relatives, relationships, and physical and psychological stresses. HTC employees can have six free sessions of counseling per person per year paid for by HTC.
- Employee Assistance Program (EAP) Website: provides recommendations for books, news, movies, and articles related to psychological health, and services to relieve psychological stress.
- Top three counseling topics for the year of 2011: work and career, family and life, and relationships.

### (5) Womens' Health

- HTC sets up 10 breast feeding rooms with related equipment for use by breastfeeding mothers. The rooms were used as many as 10,920 times during 2011. HTC also launched a special project showing its support for breast feeding, in partnership with Philips Avent, by installing breast feeding products and creating a friendly workplace for mothers.
- HTC conducts screening for women's cancers on a yearly basis, including cervical smear tests, breast ultrasound tests, and bone densitometry.

### (6) Wellness Promotion Activities

- HTC organizes health-related activities, based on statistical analysis of employee medical checkup results by the health center, such as aerobics classes, stress-relieving massages, and courses on special topics (such as weight loss, soreness and pain relief, and fitness courses, and courses for those with high triglyceride levels, metabolic syndromes, or back problems), and invites professional fitness institutions to offer courses (such as fitness or soreness/pain relief courses, aerobics, yoga classes, and spinning bike aerobics), in order to safeguard employees' health.
- Fitness center: fitness facilities, treadmills, spinning bike classes.
- Sports and fitness facilities: basketball courts, badminton courts, tennis courts, table tennis rooms, Wii rooms, basketball machines, and pool rooms.
- Clubs: badminton club, basketball club, table tennis club, hot spring club. HTC also organizes sporting contests on a regular basis.
- HTC has entered into a contract with the Eden Social Welfare Foundation to set up a dedicated area in the fitness center for blind massage, which provides the employees with a quick relief of stress and muscle soreness.
- The HTC fitness center, parent-child activities area, and outdoor multi-sport playing field are open full-time during holidays for the use by employees and their families, in order to provide an excellent space for leisure activities.

### (7) Stairs with Art Gallery – Take the stairs and improve your health

HTC launched a "LOHAS Green Energy Week" in April 2011, with a series of events related to environmental protection, energy saving and health. For one of the special events, "Stairs with Art Gallery," the main stairs in selected facilities in Taoyuan and in Gigatech Building, Xindian were decorated with artworks created by the employees in the oil painting club and photography club. Each flight of stairs was hung with one painting or photo and a short description. In addition, bonsai, hanging plants, and music were also incorporated into the green interior design, in order to transform the staircases into both an art gallery and an ideal place for stair-climbing exercise. HTC encourages its employees to take the stairs more frequently to improve their health, and hopes, through arts and physical/mental stress relief, to improve its employees' physical and mental health and to make exercise a part of their daily lives.

### (8) Nutrition Labeling

- With the help of nutritionists, the HTC cafeteria provides meals that are nutritious, healthy and delicious. The HTC cafeteria puts red, yellow, and green labels on the meals in terms of calories, to serve as a reminder for the employees when they select meals.
- HTC reminds its employees to select appropriate diet through color labeling, calories labeling or nutrition labeling.
- The cafeteria has begun to provide health meals and body-slimming meals, and conducts inspections and reviews on the meals from time to time.

### 1-3. Smoke-Free Working Environment

In line with the government's policy on smoke free workplaces and adoption of the Act Governing Control of Tobacco Hazards, HTC has created a smoke free environment in all of its facilities.

HTC encourages its employees to quit smoking through information sharing on giving up tobacco, stress-relieving massage, and activities for smokers wanting to quit, in order to reduce the direct and indirect harm to their health from smoking, and to reduce risks on employees' health from second-hand smoke.

Giving Up Smoking Programs: HTC retains doctors, nutritionists, social workers and licensed nurses to form a professional instruction team for this program. The families of the participants are also invited to participate in the program. The participants are divided into several groups in small-size classes for a series of courses on giving up smoking. Follow-up tracking is conducted on the participants during and after the program. HTC provides awards for employees who have successfully given up smoking.

### 1-4. Family day

Every year HTC invites employees and their families to participate in family day activities, promoting family values and helping employees and their families to share in and understand the HTC corporate culture and values. On family day, employees' family members are invited to participate in enjoyable activities and share in the company's accomplishments. The theme of the 2011 family day, for example, was Rock this Summer with "Passion and Gratitude." This theme emphasized the employees' commitment to HTC, improving the interactions between employees and their families, and the concept of creating a balance between life, work and family. Around 11,000 employees and families participated in the family day activities.

## (2) Safety and Health

### 2-1. Safety and Health Management

- (1) HTC makes use of the OHSAS 18001 occupational health and safety management standard and implements identification of hazards and management of harmful and dangerous substances, as required by relevant laws and regulations, as the key elements of its efforts to prevent the possible occurrence of any workplace accidents and disasters. Key points of implementation:
  - Observing health and safety laws and regulations.
  - Identifying hazards as a means of lowering risk.
  - Creating standards for management of harmful and dangerous substances.
  - Providing information on health and safety.
  - Implementing management of contractors.
  - All employees participate in the programs for reduction of health and safety risks.

Emergency incidents that occur due to human error or natural disaster, including incidents such as fire, explosions, typhoons, accidental substance releases, mechanical equipment injuries, contagious disease, or earthquakes, are handled by HTC in accordance with emergency response plans, recognition of emergency conditions, response measures during the incident, and critical appraisal and feedback after-the-fact, to ensure it can minimize the influence of any incidents on employee safety and health and the assets of the corporation.

- (2) HTC has also established a response organization at the corporate level for major statutory infectious diseases, so that it can fully and effectively ensure the proper handling of any suspected cases and maintain the health and safety of employees and mutual support through sharing of resources. Implementation of the response plan is outlined below:

- The Environment, Health and Safety Committee meets regularly, focusing on the environmental, safety, and health projects under implementation during the given quarter. During the meetings, committee members and HTC department representatives hear reports on issues such as achievement of improvement goals, analyses of accidents, employee health promotion, implementation of environment projects, and the results of testing carried out in employee work environments.

- (3) Ever since its founding, HTC has undertaken risk assessments that target its production processes, equipment, and use of chemical products. It adopts measures necessary on the basis of the assessment results in order to reduce accidents caused by processes, equipment, or working environments, and to reduce harmful exposure to chemical products. Measures include:
- Chemical substances management
  - Regular inspections of dangerous machinery and equipment
  - Employee education, training, and guidance, including general labor safety and health related education and first-aid training.
  - Regular compilation and statistical analysis of accidents occurred.
  - Notice and explanations in relation to hazardous conditions and dynamic management of the work area at irregular intervals.

## 2-2. Safety and Health Training

### (1) New Employee Education and Training

HTC has adopted an education and training plan for environment, safety and health in accordance with environment, safety and health laws and regulations and its operational needs. It effectively implements appropriate and effective education and training in these areas for new employees by offering the following courses for new employees based on their actual work needs:

- General safety and health education and training for new employees (including EAP fire drills)
- Emergency self-protection and fire training
- General safety and health education and training for employees with work transfers.
- General knowledge training on hazards for personnel handling organic solvents.

### (2) On-the-job Training for Employees

HTC adopts an on-the-job training plan for employees in accordance with the requirements of relevant laws and regulations and the employees' plan for their career and development, and offers the following courses on a yearly basis according to schedule or by a professional training agency:

- General knowledge training on hazards for the supervisor and personnel handling organic solvents.
- Training for crews operating forklifts with load capacities of one ton or more.
- ISO14000 lead auditor training.
- OHSAS18000 internal auditor training.

- Safety and health managers/coordinator training.
- Class B dedicated wastewater and sewage treatment specialist training.
- Credit program for labor safety and health personnel.
- Professional training for occupational health nurses at the Council of Labor Affairs
- Credit program for nurses.
- Radiation safety training.
- Emergency self-protection and fire training.
- Emergency response drills.

## 2-3. Occupational accident prevention and emergency response

### (1) Prevention of occupational accidents and automatic inspection plans.

Since its incorporation, HTC has always made the prevention of occupational accidents a highest priority. Each year, in accordance with relevant laws and regulations and its experience with actual operations, it draws up a "Labor Safety and Health Management Plan." The Plan is implemented in the following areas, to actualize our goal of occupational accident prevention and automatic inspections, and to thereby achieve our goal of zero accidents at the workplace.

- Safety and health organization
- Safety and health management
- Safety and health education and training
- Standard operation procedures and work safety analysis
- Safety and health inspection
- Emergency response
- Medical care
- Safety and health activities

### (2) Equipment safety management and emergency response measures

- HTC has adopted an emergency drill plan and established an emergency response mechanism.
- HTC organizes fire-fighting training drills for new employees once a month in the plants, and carries out simulation drills every half year for personnel in charge of emergency self-protection and fire fighting, so that the employees can immediately make proper use of fire fighting equipment.
- In line with the emergency response mechanism, HTC conducts evacuation drills so that during emergency events employees can find the nearest safe routes for evacuation.

## 2-4. Safety and Health at Work Areas

### (1) HTC continues to implement its occupational safety and health management system, and upholds the ideals of comprehensive environmental protection, proper health and safety management, and progressive improvement in energy efficiency. HTC provides and maintains a safe and healthy working environment for its employees to create a better quality of life for its employees, customers, suppliers, and contractors.

- HTC identifies risk factors on a regular basis for work operations
- HTC identifies relevant laws and regulations in order to understand issues relating to applicability and compliance with newly adopted and amended laws and regulations.
- HTC sets up an annual target based on the results of risk factor identification in order to determine the future direction of its efforts and the desired outcomes.
- HTC conducts internal and external audits.
- HTC establishes and modifies relevant procedures and documents.

### (2) Chemical Substances Management

- HTC confirms on a regular basis the type, quantity and storage of the chemical substances used (including management of the storage containers).
- HTC confirms the accuracy and completeness of labeling of the chemical substances at each unit using such substances.
- HTC confirms the accuracy and completeness of information on the chemical substances.
- HTC conducts regular inspection tours of storage environments and equipment safety; personnel are required to wear basic protective gear when they access chemical substances.

### (3) Drinking Water Meets Quality Standard

- Drinking water equipment undergoes regular maintenance to ensure the safety of drinking water.
- Drinking water equipment is regularly inspected and maintained to ensure normal operation.
- Regular inspection of the drinking water quality are conducted to ensure the safety of drinking water.

### (4) HTC Ensures Workplace Safety and Employee Health

- Regular on-site inspections on the production facilities to find out any on-site irregularities.
- Annual inspections on fire fighting equipment to ensure its effectiveness and functionality, and coordinating the facilities keepers to assist in the handling of any irregularities.
- Safety inspections on the buildings to ensure the completeness of the zoning, passages, and partitioning facilities.
- Regular inspections of work environments
- HTC has established illumination standards at its production facilities to ensure that work injuries or occupational diseases do not occur due to poor lighting.
- Regular ionizing electromagnetic wave detection tests are carried out on electrical equipment on a yearly basis, and monthly detection tests using infrared on all electrical sockets to ensure there are no short circuits or current overloads.

### (5) Automatic Inspections

HTC has adopted a workplace accident prevention and automatic inspection plan on a yearly basis in accordance with laws and regulations and its experience in actual operations. The automatic inspection plan is implemented in eight areas:

- Establishment of an organization for safety and health
- Implementation of safety and health management: Compiling statistics on accidents, analysis of accidents, convening the labor safety and health committee, inspections of accident prevention and management, and management of contractors entering HTC plants.
- Safety and health education and training: General safety and health education and training for new employees and employees with work transfers, general knowledge education on work hazards, training for crews operating forklifts with load capacities of one ton or more, training for supervisors for the handling of organic solvents, ISO14000 and OHSAS18000 management system training, and fire fighting training.
- Standardized operating procedures and work safety analysis: HTC has adopted operating rules, maintenance rules, and work safety procedures, and has additionally adopted or amended work safety and health guidelines, general knowledge education on work hazards, and risk assessments.



- **Safety and health inspections:**  
HTC conducts regular inspections of forklifts, high-voltage electrical equipment, low-voltage electrical equipment, air compressors, general exhaust ventilation systems, generators, elevator equipment, work environments, high-pressure compressed air storage tanks (with load capacities of one ton or more), regular inspections of fire fighting equipment, radiation dosimetry checks, local exhaust ventilation system inspections, autoclave (small-sized pressure containers) inspections, and examination of building structures and public safety.
- **Emergency Response:**  
HTC has established an annual response plan and implements emergency response drills.
- **Medical Care:**  
Purchase of medical consumables, physical examinations for new employees, medical checkups for employees already on the job, and medical checkups and management relating to special hazards.
- **Safe and Health Activities**  
In cooperation with government policy, HTC implements safety and health promotion activities and participates in various symposiums, and widely displays all types of related posters, comic strips, and slogans, which are updated frequently, and also exchanges views on work safety and improvement of work efficiency.

## 2-5. Contractor Management

### (1) Management of Work by Contractors

- Notices and explanations on hazardous conditions are provided in the work area prior to contractor employees entering HTC plants.
- Prior confirmation of information on the contractor and their personnel.
- Supervision of high-risk operations.
- Supervision of the personnel entering HTC plants.
- Confirmation of safety conditions at the work site.
- Work safety and health management at newly built plants.
- Request and confirmation of necessary insurance for contractor employees.

### (2) Audits on the Safety and Health of the Contractors

- In accordance with relevant labor safety and health regulations, HTC has incorporated requirements for safety and health management operations in its contractor contracts, specifying the obligations and responsibilities of the contractors and assessing the risks of the work environment and dangerous machinery and tools, in order to understand and prevent risk factors.
- HTC has established a system of inspections for work sites, and in accordance with the relevant labor safety and health regulations and the requirements of the contract, carries out regular and irregular inspections and audits on safety protection measures in the work environments, the safety and health education records of the workers, and examinations of the machinery, tools and equipment before, during and after use.

## (3) Friendly Workplace

### 3-1. Variety of Services

Fun and Benefits Committee: FAB budgets are used for providing a variety of benefits for the employees, such as healthy recreation facilities, scholarships for children of employees, daycare centers, bonuses for holidays and festivals, gift certificates for bookstores, department outings, club subsidies, and group insurance. In addition, HTC has also set up an outdoor multi-sport playing field and a fitness center.

HTC provides its employees with a variety of services, including a convenience store, coffee shop, travel agency, health center and resident physician, fitness center, outdoor multi-sport playing field, game area, massage station, and library. To enhance the quality of employee working environments, it has also actively expanded green spaces around the plants; it has designed and built spaces for easy handicapped access for workers and visitors with physical disabilities; it has entered into a contract with the Eden Social Welfare Foundation to set up a dedicated full-time area for massage by the blind in the fitness center, providing employees with quick relief of stress and muscle soreness; and in addition to providing breast feeding rooms for mothers, HTC has also launched, in partnership with Philips Avent in 2011, a special project showing its support for breast feeding by installing breast feeding products and creating a friendly work environment for mothers. The goal is to meet the diverse needs of its employees for a friendly workplace environment.

In addition to providing a comfortable and friendly work environment as described above, HTC is also very concerned about measures closely related to the lives and well-being of its employees, such as providing appropriate control and management systems for plant air quality and comfortable lighting in work areas, to ensure that its employees can work in the best possible environment.

### 3-2. Human-based Management for Housing Units

Based on the space layout and the needs of individual tenants, HTC's housing units for its employees (including students) include facilities such as a fitness center, library, reading room, recreation room, computer center (with Internet access), and other living and entertainment facilities. HTC hires full-time administrators and guards for the housing units and has established an automatic police reporting system to ensure the safety of the employees living in the housing units.

### 3-3. Human Rights Guarantees for Labor

- HTC has incorporated issues regarding human rights into the education and training for new employees, and has specifically included in the employee guide its promotion of gender equality and the prevention of workplace sexual harassment, and has strived to guarantee the rights and interests of its individual employees.
- HTC hires translators, administrators and counselors that are familiar with the languages of foreign employees in order to provide them with assistance in terms of local living, language, culture, and spiritual needs.
- HTC strictly prohibits, and maintains a complaint reporting system for any kind of discrimination, workplace harassment and improper disciplinary actions.

## (4) Environmental protection

HTC makes pollution control of all types a high priority, devoting extensive funding to pollution control facilities and the deployment of dedicated personnel in the effort to reduce our environmental impact. The company provides those personnel with external training to obtain relevant certification, allowing them to assume full responsibility for pollution control facilities. Through training and auditing, normal operation of all pollution controls is maintained through appropriate management designed to steadily diminish our environmental impact, and HTC anticipates continual reductions in environment impact and achievement of the environmental goal of completely "clean production."

Since its incorporation, HTC has regularly retained qualified inspection providers to carry out tests on work environments in its production plants, and all tests have met government

requirements. HTC has obtained ISO14001: 2004 certification for environment management systems and the ISO14064-1 Greenhouse Gases Emissions Verification Opinion Statement. HTC has introduced the ISO50001: 2011 energy management system, and has undergone verification by a third-party certification institution. HTC strives to improve energy efficiency and reduce greenhouse gas emissions through systematic energy management and effective energy-saving measures, and actively carries out its responsibility as a corporate citizen.

## 4-1. Environment Management

### (1) Environment Management System

- HTC regularly identifies issues related to the environment in its plants, and based on those environmental considerations, includes any variations in major manufacturing processes, operations, production facility surroundings, and plants locations in the scope of consideration.
- HTC regularly reviews the applicability of laws and regulations to its operations in order to understand the impact of their amendment with respect to application and compliance issues.
- In accordance with the results of assessment in areas of environmental considerations, HTC sets up annual targets in order to determine the future direction of its efforts and the desired outcomes.
- Through internal and external audits, HTC identifies the best timing for implementing improvements in order to achieve the goal of continuous improvement.
- HTC establishes relevant procedures and documentation.

## 4-2. Reduction, Recycling and reuse of waste materials

### (1) Proper handling of waste materials

- In line with the requirements of laws and regulations, HTC hires a lawful institution in charge of handling and disposing general industrial waste to properly handle its industrial waste.
- HTC has established a monthly inspection schedule, on the basis of which it carries out regular inspections in the areas for storage and temporary placement of waste materials, and requires that any non-conformities be corrected within one week.
- HTC has established a self-assessment form and audit procedures for its environment, safety, and health inspections, for use in operations management and risk assessment management.
- HTC from time to time dispatches personnel to follow vehicles from the institution in charge of handling and disposing waste materials for inspection in order to make on-site verification of waste disposal and handling processes.

**(2) Waste reduction, recycling, and reuse**

- HTC's strategy for waste reduction begins with reducing waste production and rigorous sorting of waste. Production of waste is reduced at the source, and to improve recycling rates we give the highest priority to material reuse. In 2011, all parts of plastic assembly panels that could be recovered were reused, and the remaining recyclable materials were outsourced to a recovery enterprise approved by the Ministry of Economic Affairs' Industrial Development Bureau for waste purification and processing into industrial-grade materials for further use. We have achieved an average annual recycling rate of 60 percent. Other waste is dealt with by physical sorting to increase reusability, and is subject to final disposal only when there is no possibility of further reuse. HTC carries out regular online reporting with regard to the status of production and temporary storage of waste in accordance with laws and regulations.
- HTC continues to promote activities for reduction of general domestic waste.
- Used batteries, fluorescent light tubes, and computer and electronics equipment are also fully recycled.
- Employees, guests, and persons arriving on business at HTC are encouraged to use eco-friendly reusable tableware and cups.
- In April 2011 HTC promoted a "LOHAS Green Energy Week," organizing a series of events on environmental, energy saving, and health themes, including, in response to World Environment Day, encouraging employees to use eco-cups and tableware and asking them to urge fellow employees to reduce their use of throwaway utensils.

**(3) Ensuring appropriate waste management by suppliers and contractors**

- HTC carries out surveys, audits, and risk-level assessments to differentiate between the firms who provide its parts and assemblies with respect to their performance in the areas of environmental protection, health and safety, and corporate social responsibility.
- HTC sets up survey and audit mechanisms for firms handling waste clearance and disposal, maintaining files on each and implementing risk-level assessments.
- HTC engages in control and management of construction waste through both source control and end control.

**4-3. Use and Management of Harmful Substances and Chemical Products****(1) Environmentally safe compounds used in gas fire extinguishing system:**

Halide fire extinguishing equipment has been chosen to replace the previous carbon-dioxide based systems.

**(2) Environmental batteries have been chosen for fire-fighting illuminating lamps:**

Lead-acid batteries have been replaced with nickel-cadmium batteries.

**(3) Chemical agent management part of cooling tower setup:**

Cooling tower cleaning and disinfecting agents have received safety certification or conform with related standards.

**(4) Specially appointed persons responsible for inventory, inspection tours, and confirmation of the following matters regarding chemical agent management:**

- Types, amounts, and storage conditions of chemical agents used (including management of storage containers).
- Complete and accurate labeling of chemical agents at units where they are used.
- Whether information on chemical agents is complete, including relevant SDS (Safety Data Sheets).

**(5) Ensuring appropriate management of chemical agents by suppliers and contractors: Chemical agent management by suppliers includes the areas of environmental protection, health and safety, and corporate social responsibility. HTC carries out surveys, audits, and risk-level assessments of internal management systems at its suppliers and contractors.****(6) Storage and Use:**

- HTC holds general education courses for "identification and labeling of dangerous substances," "classification and labeling of chemical agents," and use of "Safety Data Sheets." Courses are planned to include new HTC employees.
- Chemical agents and flammable materials are all appropriately stored in dedicated industrial safety cabinets, with exhaust fans designed to remove volatile gases out of the safety zone. Regular inspection tours check on storage environments and the safety of related facilities.

- Employees are strictly required to wear basic protective gear when handling chemicals (such as protective goggles and gloves), and required to carry out registration and control measures when entering or leaving storage areas and taking items out of storage.

**4-4. Greenhouse Gas Emissions and Management****(1) Greenhouse gas inventory and disclosure**

In response to international concern regarding greenhouse gases and global warming, and in cooperation with the greenhouse gas reduction guidance plan of the Ministry of Economic Affairs' Industrial Development Bureau, HTC has implemented inventories of the sources and volumes of its greenhouse gas emissions in accordance with IISO14064-1 standards. The results of its implementation include the following:

- Inventorying greenhouse gas emissions allows better understanding of energy use and is helpful in establishing energy-saving strategies.
- At the beginning of each year, HTC implements inspection of its greenhouse gas inventory by a certification agency and receives an inventory certificate.
- HTC discloses information on its greenhouse gas emissions each year through the Taiwan Environmental Protection Agency's National Greenhouse Gas Registration Platform and information disclosure through international nonprofit organizations.

**(2) HTC has inventoried and disclosed the extent of its greenhouse gas emissions since 2008, within an organizational boundary that includes all of its production facilities in Taiwan. Since 2010, inventory and disclosure has also included its plants in mainland China, along with verification by outside agencies. Electrical consumption has been the main source of greenhouse emissions, which in 2010 amounted to 33,800 metric tons of CO<sub>2</sub>e. In the future, HTC will implement greenhouse emissions inventory and disclosure, along with external verification, for all subsidiaries under its control, to continue the monitoring and measurement of its greenhouse gas emissions, and will implement the ISO 50001 energy management standard, combining energy management with energy reduction measures to effectively enhance its energy efficiency and reduce the volume of its greenhouse gas emissions.****(3) In addition to its yearly inventory and disclosure of greenhouse gas emissions, HTC also responds annually to the demands of the international Carbon Disclosure Project organization by reporting regularly on carbon risk and planning and systems for carbon management.****(4) Concrete measures taken by HTC to reduce greenhouse gas emissions during employee commutes are below:**

- Encouraging greater use of public transport by employees and promoting less driving or taking taxis for commutes.
- Using videoconferencing to reduce carbon emissions resulting from transportation and lodging during business trips.

**(5) Energy and Resource Consumption and Saving****5-1. Use and Management of Electrical Energy****(1) Establishing energy-saving strategies, enhancing operating efficiency, and reducing energy consumption**

- HTC has established systems to ensure the repair and maintenance of its high-power electrical power supply, while adopting technologies to reduce electrical consumption that have allowed an annual reduction in CO<sub>2</sub> emissions of about 640 metric tons.
- In 2011 HTC introduced the ISO 50001 energy management standard and passed third-party certification. HTC has drafted and phased in an energy-reduction action plan through the use of systematic energy management and energy-reduction policies; in 2011 it added robotic assembly-line systems for assembly and inspection, bringing major reductions in average energy costs per unit of production.
  - Implementation of energy-reduction plans systemically and at management levels has reduced energy wasted as a result of routine practices or misinformation.
  - Measurement and appraisal has been undertaken of energy consumption levels of old drinking water dispensers and the economic benefits of switching to new ones.
  - Frequency converters have been added to motors and pumps to reduce energy consumption.
  - Heat recycling facilities have been set up to replace electricity consumption.

**(2) Overall Management of Energy Reduction in Lighting Systems**

Beginning in 2010, the old, high-energy-consumption T8/T9 fluorescent lamps in offices and plants in Taoyuan, Xindian, and Tainan have been gradually replaced by more energy-efficient T5 lamps and LEDs. This has resulted in energy savings of 210,240 KWH/year and the environmental benefit of a reduction of 133.7 metric tons of CO<sub>2</sub>e.



- HTC has installed time-controlled lighting between floors in office working areas and infrared sensor lighting switches to effectively reduce electricity consumption through automatic detection and time-controlled lighting measures.

### (3) Overall Management of Air Conditioning Systems

To manage repair and maintenance of air conditioning systems and their levels of efficiency, HTC has established environmental operation management principles for air conditioning systems and carried out appraisal and review of the air conditioning equipment and ductwork. Further, through continuing monitoring, measurement, and improvement of energy use under the ISO 50001 system, HTC in 2011 was able to improve its systems and achieve an increase in energy efficiency from 1.53 KW/RT to 0.88 KW/RT, allowing for annual savings of nearly 3 million KW per year from the air conditioning system.

### (4) Energy Reduction Management in Hot Water Systems

In 2011 electrically heated hot water systems were upgraded to air-source heat pump water heater, resulting in an annual CO<sub>2</sub> reduction of 1.2 metric tons of CO<sub>2</sub>e.

## 5-2. Use and Management of Water Resources

### (1) Wastewater Reuse Rates Enhanced Through

#### Wastewater Treatment and Self-built Treatment Facility

The primary sources of plant wastewater derive from general domestic and dining facility wastewater and employee restroom and cleaning uses. To thoroughly resolve any adverse impacts from waste or polluted water on nearby receiving water bodies, HTC's water treatment facility has operated at a peak daily capacity of 200 metric tons of recycled water since July 2011, producing water which can be used for irrigation in the industrial park area or for urinal flushing, thereby reducing the use of water from the mains system.

### (2) Rainwater Recycling Management

Rainwater collection and filtration for daily use in urinal flushing, irrigation, and fire prevention water storage reduces the use of water from the mains system.

### (3) Use of Water-Saving Devices

Water-saving devices have been installed in break rooms, shower rooms and restrooms, and reduced-flow faucets and two-stage flushing systems in restrooms help reduce wastage and the volume of water used.

## 5-3. Other Energy and Resource Management

- Paper consumption has been greatly reduced by using electronic substitutes for general workflow (including electronic bulletin boards, online education and training, and E-forms for reservation of meeting and conference rooms, leave requests, name-card orders, and overtime requests), along with the installation of advanced electronic whiteboards and whiteboard projection screens.
- External faxes are not printed out, but are all sent as electronic files to the recipient person or unit to reduce the need for photocopying.
- Whenever possible HTC uses recycled paper packaging for any items it must send by express deliveries, and avoids using plastic envelopes that cannot be recycled.

## 5-4. Promoting Green Buildings

During the planning of its new facilities in Xindian and Taoyuan, HTC's goals were to apply for and be recognized as meeting the standards of the U.S. Green Building Council (USGBC) and to receive certification at the gold certification level under the LEED (Leadership in Energy & Environmental Design) system, and to observe those same criteria in the future construction of its new plant, in order to construct a comfortable, healthy, environmental, energy-efficient, and water-conserving working environment.

To achieve these goals, the LEED requirements were reflected during all phases of the planning, design, and construction of the project, and engineering contractors in all areas were also required to fully reflect the relevant LEED requirements in all aspects of their construction work.

## (6) Green Products

### 6-1. Green Products and Supply Chain

HTC promotes a green supply chain and puts its full resources behind producing green products. This means attention to each phase of production, from initial design and manufacturing to later use and end-of-life considerations, accommodating design for environment issues and producing a variety of green products conceived on the basis of their energy-saving, recyclable, and low-toxic qualities. HTC does its best to avoid the use of harmful substances during production to ensure its products meet international environmental standards while satisfying its customers' needs.

### 6-2. Energy-efficient designs

In the overall life cycle of an electronic communications product, the most energy-intensive period is the period of use by the consumer, meaning that most greenhouse

gases produced in connection with those products occurs during this stage. For that reason HTC gives intense scrutiny during research and development to the question of energy efficiency. As a part of our concern for energy efficiency, the power supplies for all HTC product must conform to international energy use standards, including the US EPA Energy Star program, the California Energy Commission standards, the EU Code of Conduct, and the EU EuP Directive.

In addition, our R&D team has developed outstanding power management systems. Based on consumer habits, handsets automatically switch to energy-saving mode that reduces energy use and extends battery life. Some models also include light sensors that trigger an automatic LCD backlighting function, which not only creates more readable displays but also saves energy.

### 6-3. Design for recyclability

The actual recycling rate for HTC mobile phones, including reuse and recovery rates and recycling and recovery rates, far exceeds the requirements of the EU WEEE (Waste Electrical and Electronic Equipment) standards. HTC also performs risk assessments in the areas of the disabling injury rate and severity rate, on the basis of which it adopts corresponding measures to reduce the number of accidents resulting from production processes, equipment, and environments, and the number of harmful exposures to chemical products.

HTC makes design-for-recyclability assessments and other simulations part of its initial research and development. It disassembles products and performs material simulations to estimate materials compositions and recycling rates. Labeling of materials, simplified component design, and design for ease of disassembly are strategies used to provide feedback on designs to the R&D team. Current HTC products are designed to meet both current and future recycling standards.

- The corrugated board HTC uses as mobile phone packaging material is manufactured from more than 90% recycled paper.
- If the use of virgin materials cannot be avoided because of visual design considerations, the packaging materials used will have received certification from the FSC (Forest Stewardship Council), PEFC (Programme for the Endorsement of Forest Certification schemes), or SFI (Sustainable Forestry Initiative).

### 6-4. Low-Toxicity Design

As early as 2005, HTC had already produced the world's first PDA phone to meet the standards of the EU's RoHS Directive (Restriction on the Use of Certain Hazardous Substances

in Electrical and Electronic Equipment). From that time to the present, HTC has required that all parts, modules, and materials delivered to its plants conform with its substances control checklist. Its control of restricted substances goes beyond the six controlled substances listed in the RoHS Directive to include other items deemed controlled substances in accordance with international environmental laws and regulations or the requirements of our international customers.

## (7) Public Welfare Activities

HTC puts great effort into environmental protection, health and safety, energy management, and providing and maintaining a safe and healthy working environment for its workers. Through the HTC Foundation it promotes character-building educational activities for children and young people. HTC also takes part in blood donation drives, employs persons with disabilities, and takes part in community environmental clean-up efforts in mountain and seaside areas.

### 7-1. Promoting Character Education

In recent years, HTC Foundation has been involved with promoting character-building education for children and young people, working together with city and community efforts to create a culture of character and showing concern for disadvantaged groups by providing extra educational opportunities for their children. In addition to providing programs to encourage continuing study, HTC also works tirelessly with others to help promote a culture of values which will foster individuals who are upright, honest, caring, positive and concerned about natural resources. HTC Foundation is continuing a three-year project it began in March of 2008 when it signed a "character white paper" with the Taoyuan County Government to create "100 character-building schools." HTC promotes character education in all areas among educational administrators, schools, communities, and families, as part of its effort to establish a network for the promotion of character education.

#### Substantive accomplishments:

- HTC continues to contribute to the establishment of its Character and English Institute in Hualien County's Ji'an Township, providing full sponsorship for attendance by nearly 2,000 4th-grade elementary school students from throughout Hualien County at a five-day, four-night camp for character building and English skills. Each year HTC contributes tens of millions of New Taiwan Dollars in sponsorship for all operating and upkeep costs, while also participating in development of courses that provide English teaching to the disadvantaged and residents of remote areas.
- HTC, in cooperation with Yunlin County Government

and the elementary schools in Yunlin, has set up a second Character and English Institute, focusing on the developing participants' core character values and crucial skills, along with their interest and skill in the English language. HTC provides full sponsorship for all the costs of the education, including establishment and renovation of the facilities and the costs of course materials and instructors, as well as meals, accommodations and transportations for the participants. The five-day, four-night camps for English and character-building courses are provided free of charge for 2,000 students in Yunlin County every year, helping to bridge the difference in foreign language learning resources between urban and countryside areas.

- In September 2011, HTC established a third Character and English Institute in Chiayi.
- HTC continued to sponsor "Good Deed Representative" Yin Guanghua for the fifth consecutive year in giving character-building lectures at hundreds of schools and prisons around the country.
- HTC has provided free Dale Carnegie course teacher training through the Pan Shi ("Bedrock") Education Project for a cumulative total of 32,375 persons; character training for teachers for a cumulative total of 26,047 persons; deep communication and self-expression training for 4,107 persons; character-building education lectures for 1,442 persons; and character-building lectures by celebrities for 4,028 persons. A total of 68,000 persons throughout Taiwan have received training through the Project. The Project began promoting Character Building Schools in Taoyuan County in 2008, and has provided a total of NT\$24 million in sponsorship for 100 different schools.
- HTC continues to promote its "Township Character" plans for public servants in five different townships, providing training to a cumulative total of 4,300 persons.
- For the 7th consecutive year, HTC is continuing to sponsor life and character-building education institutes for teenagers, such as the Champions Education Association and Rainbow Family Life Education Association, in order to promote life education and character-building education for teenagers.
- For the 3rd consecutive year, HTC is continuing to sponsor 21 public schools in Costa Rica to promote character-building education programs, which has so far benefited more than 23,000 students.

## 7-2. Community Building

### (1) Blood donation drives

Each year HTC invites the HsinChu Blood Center to conduct 4 blood donation activities at HTC, and since 2006, many of our warmhearted employees have

made it a habit to donate blood on a regular basis. When they hear the blood donation bus is on the way, they automatically roll up their sleeves, taking immediate action and giving their warm support to the community. Each year HTC wins the HsinChu Blood Center's award for outstanding blood donation organization.

HTC has set a goal of over 1,000 bags of donated blood per year. In 2011 its total was 1,245 bags of blood donated.

### (2) Environmental Cleanups in Mountain and Seaside Areas

HTC has chosen the area surrounding its Taoyuan headquarters for green activities to help create cleaner mountains and seaside areas. By getting closer to nature in their off hours, HTC employees more spontaneously engage with environmentalism and take positive action to show their determination to protect and maintain the environment.

### (3) Subsidizing Education for Needy Children

For a number of years now, the HTC Foundation has also devoted effort to helping underprivileged groups by providing educational opportunities to children of needy families. In addition to providing programs to encourage their continuing education, HTC works tirelessly to participate in the community and serve society by helping promote core values that will foster individuals who are upright, honest, caring, concerned, and respectful, and to promote positive thinking and concern natural resources.

#### Public Service Activities in Taiwan:

- Since 2008, HTC has been sponsoring participation by children from low-income households in "English Village" activities in Taoyuan County, contributing a total of over NT\$2.7 million in sponsorship.
- HTC, in cooperation with World Vision Taiwan, has for 9 consecutive years been supporting 72 impoverished children in the Yuli area in Hualien, and from 2003 to 2011, 200 other impoverished children abroad. HTC organizes hot pot gatherings every year and offers educational gifts.
- For the 7th consecutive year, HTC has continued to sponsor after-school supervision for 300 children from low-income households, in cooperation with the Chinese Christian Relief Association.
- For the 4th year, HTC continues to sponsor the Joy Association in Shoufeng, Hualien, providing after-school tutoring for 50 disadvantaged teenagers and character-building education for 200 children every year.

- For the 4th year, HTC continues to sponsor the Bread of Life Christian Church in Xihu, Changhua, providing after-school remedial education for 50 disadvantaged teenagers.
- HTC set up scholarship awards for impoverished students in 3 high schools in 2010, which have providing financial support for a total of 350 students.

#### Public Service Activities in Foreign Countries

- HTC, in cooperation with World Vision Taiwan, provided support for 500 children from low-income households in Central America, Guatemala, and Salvador (2004-2005); 500 children from low-income households in Haiti and the Republic of Ghana (2006-2007); and 200 children from impoverished households in Haiti and the Republic of Ghana (2008-2011).
- Since 2007, HTC has been providing scholarships for students from impoverished households at schools in China's remote northwest regions and Qinghai Province. Twenty-six of those students have received tuition support from high school all the way to college, with another 48 students receiving support for their high school tuition.
- From 2007 to 2009, HTC provided support for 100 high school students in Benxi No. 1 Senior High School in Liaoning Province and Yinchuang No. 1 Senior High School in Ningxia Province. Starting in 2011, HTC has been sponsoring 230 high school students in three high schools in the disaster stricken areas in the Province of Sichuan, providing full support for tuition and living expenses year-round for disadvantaged and impoverished students.

### (4) Provision of assistance for the second consecutive year to the Rehabilitation Hope Project at the Development Center for the Spinal Cord Injured.

- In April 2011, as part of the "LOHAS Green Energy Week," HTC held a "Second-hand Children's Book Collection Drive" in its plant and office facilities in Northern, Central, and Southern Taiwan, encouraging employees to donate children's books from their homes for donation to the Chinese Christian Relief Association of Taiwan, helping provide children from needy homes with quality reading materials to help them create a more fulfilling future.
- HTC continues to provide assistance to the Rehabilitation Hope Project at the Development Center for the Spinal Cord Injured.

### (5) Hiring Persons With Disabilities

In an event held by the Taoyuan County Government, "Sharing Results of the Employment Drive and Awarding Outstanding Companies—Displaying Aspiration at the Workplace and Working Together," HTC won an award for "Outstanding Company for Hiring of Physically and Mentally Disabled Persons." It was also invited to a press conference to share its experience as a model company in this area, an honor that was achieved through teamwork and cooperation between members of every department and the support of the high-level policy makers of the company.

HTC has always believed in quietly doing what it believes is right and what is helpful to the society. In hiring persons with disabilities, it takes their special needs and characteristics into consideration with respect to their job duties, and works with various supportive and protective service agencies for job matching. In particular, for employees working in the production and manufacturing area, it initially established a dedicated line for recruitment and provided a series of initial training courses. At the same time, volunteers among the employees play the role of "little angels" who help make arrangements for their basic needs in terms of food, shelter, clothing, and transportation at the company, while also keeping up to date with their progress in their work and any assistance they might require. Through systematic training and practical work experience, each of the disabled employees is able to become familiarized with their work and become productive, and to take further steps to take up ordinary duties and develop the same work skills as other employees. HTC's disabled employees are thus able to grow through their work experience and achieve economic independence.

Areas in which HTC employs persons with disabilities include nursing, education and training, personnel recruitment, salary-related management, document receipt and issuance, plant engineering, environmental maintenance, production and manufacturing, and quality control inspection. In 2010, HTC employed 145 persons with disabilities, 33 more than the statutory required number. In 2011, it employed 173 persons with disabilities, or 32 more than required under the law. HTC has thus not only met but far exceeded the statutory requirements in this area.

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# **CAPITAL AND SHARES**

# CAPITAL AND SHARES

## 1. Capital and Shares

### (1) Capitalization:

2012.05.10 Unit : Share ; NT\$

Month/ Year	Price	Authorized		Paid-in		Sources of capital	Remark Capital increase by assets other than cash	Other
		Shares	Amount	Shares	Amount			
03/1998	10	19,500,000	195,000,000	19,500,000	195,000,000	Cash offering	None	-
10/1998	10	200,000,000	2,000,000,000	100,000,000	1,000,000,000	Cash offering	None	Note 1
08/2000	40	200,000,000	2,000,000,000	125,000,000	1,250,000,000	Cash offering	None	Note 2
04/2001	163.5	200,000,000	2,000,000,000	127,600,000	1,276,000,000	Cash offering	None	Note 3
06/2002	10	200,000,000	2,000,000,000	162,720,000	1,627,200,000	Capitalization of profits	None	Note 4
09/2003	10	270,000,000	2,700,000,000	202,764,000	2,027,640,000	Capitalization of profits	None	Note 5
11/2003	131.1	270,000,000	2,700,000,000	217,164,000	2,171,640,000	Cash offering	None	Note 6
03/2004	10	270,000,000	2,700,000,000	218,731,347	2,187,313,470	Merger	None	Note 7
08/2004	10	450,000,000	4,500,000,000	271,427,616	2,714,276,160	Capitalization of profits	None	Note 8
01/2005	127.95	450,000,000	4,500,000,000	276,311,395	2,763,113,950	Conversion of ECB	None	Note 9
04/2005	127.95	450,000,000	4,500,000,000	288,763,321	2,887,633,210	Conversion of ECB	None	Note 9
09/2005	10	450,000,000	4,500,000,000	357,015,985	3,570,159,850	Capitalization of profits	None	Note 10
08/2006	10	550,000,000	5,500,000,000	436,419,182	4,364,191,820	Capitalization of profits	None	Note 11
04/2007	10	550,000,000	5,500,000,000	432,795,182	4,327,951,820	Capital reduction : Cancellation of Treasury Shares	None	Note 12
09/2007	10	650,000,000	6,500,000,000	573,133,736	5,731,337,360	Capitalization of profits	None	Note 13
08/2008	10	1,000,000,000	10,000,000,000	755,393,856	7,553,938,560	Capitalization of profits	None	Note 14
02/2009	10	1,000,000,000	10,000,000,000	745,393,856	7,453,938,560	Capital reduction : Cancellation of Treasury Shares	None	Note 15
08/2009	10	1,000,000,000	10,000,000,000	796,020,844	7,960,208,440	Capitalization of profits	None	Note 16
11/2009	10	1,000,000,000	10,000,000,000	788,935,844	7,889,358,440	Capital reduction : Cancellation of Treasury Shares	None	Note 17
04/2010	10	1,000,000,000	10,000,000,000	773,935,844	7,739,358,440	Capital reduction : Cancellation of Treasury Shares	None	Note 18
08/2010	10	1,000,000,000	10,000,000,000	817,653,285	8,176,532,850	Capitalization of profits	None	Note 19
07/2011	10	1,000,000,000	10,000,000,000	862,052,170	8,620,521,700	Capitalization of profits	None	Note 20
12/2011	10	1,000,000,000	10,000,000,000	852,052,170	8,520,521,700	Capital reduction : Cancellation of Treasury Shares	None	Note 21

- Note 1: Approval Document No.: The 23 July 1998 Letter No. Taiwan-Finance-Securities-I-59976 of the Securities and Futures Commission (SFC), Ministry of Finance.
- Note 2: Approval Document No.: The 21 July 2000 Letter No. Taiwan-Finance-Securities-I-59899 of the Securities and Futures Commission (SFC), Ministry of Finance
- Note 3: Approval Document No.: The 13 April 2001 Letter No. Taiwan-Finance-Securities-I-118901 of the Securities and Futures Commission (SFC), Ministry of Finance
- Note 4: Approval Document No.: The 30 April 2002 Letter No. Taiwan-Finance-Securities-I-119837 of the Securities and Futures Commission (SFC), Ministry of Finance
- Note 5: Approval Document No.: The 28 July 2003 Letter No. Taiwan-Finance-Securities-I-0920133959 of the Securities and Futures Commission (SFC), Ministry of Finance
- Note 6: Approval Document No.: The 06 November 2003 Letter No. Taiwan-Finance-Securities-I-0920146220 of the Securities and Futures Commission (SFC), Ministry of Finance
- Note 7: Approval Document No.: The 16 January 2004 Letter No. Taiwan-Finance-Securities-I-0920162653 of the Securities and Futures Commission (SFC), Ministry of Finance
- Note 8: Approval Document No.: The 09 July 2004 Letter No. Finance-Supervisory-Securities-I-0930130457 of the Securities and Futures Bureau of the Financial Supervisory Commission Executive Yuan
- Note 9: Approval Document No.: The 14 January 2003 Letter No. Taiwan-Finance-Securities-I-09100169047 of the Securities and Futures Commission (SFC), Ministry of Finance
- Note 10: Approval Document No.: The 12 July 2005 Letter No. Financial-Supervisory-Securities-I-0940128133 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 11: Approval Document No.: The 06 July 2006 Letter No. Financial-Supervisory-Securities-I-0950128723 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 12: Approval Document No.: The 25 January 2007 Letter No. Financial-Supervisory-Securities-I-09600004848 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 13: Approval Document No.: The 12 July 2007 Letter No. Financial-Supervisory-Securities-I-0960036213 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 14: Approval Document No.: The 25 June 2008 Letter No. Financial-Supervisory-Securities-I-0970031749 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 15: Approval Document No.: The 16 December 2008 Letter No. Financial-Supervisory-Securities-I-0970068202 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 16: Approval Document No.: The 9 July 2009 Letter No. Financial-Supervisory-Securities-0980034309 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 17: Approval Document No.: The 8 October 2009 Letter No. Financial-Supervisory-Securities-0980053814 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 18: Approval Document No.: The 9 March 2010 Letter No. Financial-Supervisory-Securities-0990010834 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 19: Approval Document No.: The 2 July 2010 Letter No. Financial-Supervisory-Securities-0990034358 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 20: Approval Document No.: The 30 June 2011 Letter No. Financial-Supervisory-Securities-1000030339 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
- Note 21: Approval Document No.: The 8 November 2011 Letter No. Financial-Supervisory-Securities-1000054193 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

2012.05.10 Unit : Share

Type of stock	Authorized Capital			Remark
	Outstanding shares	Unissued Shares	Total	
Common Stock	852,052,170	147,947,830	1,000,000,000	(1) Of our authorized capital, 16,000,000 shares are reserved for the exercise of stock warrants, preferred shares with warrants, or corporate bonds with warrants (2) The outstanding shares include 20,825,045 shares of treasury stock bought back by HTC to be used for transfer to employees.

### (2) Shareholder structure:

2012.04.14

Shareholder structure	Government agencies	Financial institutions	Other juridical persons	Foreign institutions & Domestic natural persons	Treasury stock	Total	
Number of shareholders	1	32	399	1,589	63,066	65,088	
Shareholding	14	27,886,022	150,152,876	453,495,910	199,692,303	20,825,045	852,052,170
Holding percentage	0.00%	3.27%	17.62%	53.23%	23.44%	2.44%	100.00%

### (3) Distribution of ownership:

2012.04.14 Each share having a par value of NT\$10

Shareholder ownership (Unit : share)	Number of shareholders	Ownership	Ownership
1 - 999	19,897	3,206,728	0.38%
1,000 - 5,000	39,060	67,135,764	7.88%
5,001 - 10,000	3,039	21,984,086	2.58%
10,001 - 15,000	934	11,589,986	1.36%
15,001 - 20,000	460	8,189,651	0.96%
20,001 - 30,000	425	10,579,533	1.24%
30,001 - 40,000	251	8,752,303	1.03%
40,001 - 50,000	142	6,416,995	0.75%
50,001 - 100,000	322	23,351,284	2.74%
100,001 - 200,000	236	33,552,145	3.94%
200,001 - 400,000	130	37,373,015	4.39%
400,001 - 600,000	53	26,945,922	3.16%
600,001 - 800,000	29	20,004,593	2.35%
800,001 - 1,000,000	17	15,051,016	1.77%
Over 1,000,001	93	557,919,149	65.47%
Total	65,088	852,052,170	100.00%

### (4) List of principal shareholders:

2012.04.14 Each share having a par value of NT\$10

Name of principal shareholders	Shares	
	Current shareholding	Percentage
Way-Chih Investment Co., LTD.	43,819,290	5.14%
Way-Lien Technology Inc.	37,808,231	4.44%
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	36,964,010	4.34%
Cher Wang	27,272,427	3.20%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital World Growth and Income Fund	26,563,050	3.12%
Hon-Mou Investment Co., Ltd.	22,900,081	2.69%
Wen-Chi Chen	22,391,389	2.63%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital Income Builder	18,151,973	2.13%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Oppenheimer Developing Market Fund	16,035,127	1.88%
Government of Singapore	15,726,300	1.85%

### (5) Share prices for the past two fiscal years, the Company's net worth per share, earnings per share, dividends per share, and related information :

Item		Year			
		2010	2011	2012.01.01-2012.03.31	
Market price per share	Highest market price	921	1,300	672	
	Lowest market price	277.50	403	446.50	
	Average market price	549.61	887.12	570.12	
Net worth per share (Note)	Before distribution	92.48	121.03	122.24	
	After distribution	55.48	81.35 (Note)	(Note)	
Earnings per share	Weighted average shares (thousand shares)	815,239	845,319	834,256	
	Earnings per share	48.49	73.32	5.35	
	Retroactively adjusted earnings per share	46.18	73.32 (Note)	(Note)	
Dividends per share	Cash dividends	37	40 (Note)		
	Stock dividends	Dividends from retained earnings	0.05	0 (Note)	
		Dividends from capital surplus	-	-	
	Accumulated undistributed dividend	-	-		
Return on investment	Price/Earnings ration	11.33	12.10		
	Price/Dividend ratio	14.85	22.18 (Note)		
	Cash dividend yield	6.73%	4.51% (Note)		

Note : 2012 pending on the approval of the Shareholders Meeting.

### (6) Dividend policy :

#### 1. Dividend policy:

Since the Company is in the capital-intensive technology sector and growing, dividend policy is set with consideration to factors such as current and future investment climate, demand for working capital, competitive environment, capital budget, and interests of the shareholders, balancing dividends with long-term financial planning of the Company. Dividends are proposed by the Board of Directors to the Shareholders' Meeting on a yearly basis. Earnings may be allocated in cash or stock dividends, provided that the ratio of cash dividends may not be less than 50% of total dividends.

According to the Company's Articles of Incorporation, earnings shall be allocated in the following order:

- (1) To pay taxes.
- (2) To cover accumulated losses, if any.
- (3) To appropriate 10% legal reserve unless total legal reserve accumulated has already reached the amount of the Company's authorized capital.
- (4) To pay remuneration to Directors and Supervisors up 0.3% of the balance after deducting the amounts under subparagraphs 1 to 3.
- (5) To pay bonus to employees up 5% of the balance after deducting the amounts under subparagraphs 1 to 3, or such balance plus unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include employees serving with affiliates who meet specific requirements. Such specific requirements shall be prescribed by the Board of Directors.
- (6) For any remainder, the Board of Directors shall propose dividend distribution to the Shareholders' Meeting based on the dividend policy set forth in paragraph 2 of this Article.

#### 2. Dividend distribution proposed at the most recent shareholders' Meeting : (Proposal adopted by the Board pending approval by the Shareholders Meeting.)

On April 24, the Board of Directors adopted a resolution to distribute NT\$33,249,085,000 in cash dividend. It translates to NT\$ 40 cash dividends per share (based on the number of outstanding shares as of book closure date, excluding share repurchases, for the 2012 Annual Shareholders' Meeting). The Board of Directors may necessary adjustments to the actual distribution ratio on the basis of the number of issued and outstanding shares registered in the Common Stockholders' Roster as at the record date.



3. There is no material change in dividend policy.

**(7) Impact of the Stock Dividend Proposal on Operational Performance and Earnings per Share:**

HTC will not distribute stock dividends at the 2012 Annual Shareholders' Meeting; therefore it is not applicable.

**(8) Employee Profit Sharing and Compensation for Directors and Supervisors:**

**1. Percentage and scope of employee profit sharing and Director and Supervisor remuneration as stipulated in the Company's Article of Incorporation.**

The Company's Articles of Incorporation stipulate that earnings shall be allocated in the following order:

- (1) To pay taxes.
- (2) To cover accumulated losses, if any.
- (3) To appropriate 10% legal reserve unless total legal reserve accumulated has already reached the amount of the Company's authorized capital.
- (4) To pay remuneration to Directors and Supervisors up 0.3% of the balance after deducting the amounts under subparagraphs 1 to 3.
- (5) To pay bonus to employees up 5% of the balance after deducting the amounts under subparagraphs 1 to 3, or such balance plus unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include employees serving with affiliates who meet specific requirements. Such specific requirements shall be prescribed by the Board of Directors.

**2. Employee Bonus proposal adopted by the Board:**

Unit: NT\$ thousands

Distribution of 2011 Earnings	Accrued Expenses for Employee Bonus	Resolution Approved by the Board of Directors
		2012.04.24
Employee Bonus	7,238,637	Employee Stock Bonus (Note 2) 0
		Employee Cash Bonus 7,238,637
		Total Amount 7,238,637
Directors' and Supervisors' Remuneration	0	0

Note: There is no difference between the value of employee bonuses and Director/Supervisor remunerations proposed by the Board and expenses accrued in the financial reporting period.

**3. Distributions of 2010 employees' bonus and remunerations for Directors and Supervisors:**

Distributions of earnings in 2010	
Date of the Board resolution	2011.04.30
Date of Annual Shareholders' Meeting	2011.06.15
Total stock bonus as employee bonus	Total Number of Shares (Note) 4,005,520
	Total Amount (NT\$1,000) 4,245,852
Total cash bonus as employee bonus (NT\$1,000)	4,245,852
Total employee bonus (NT\$1,000)	8,491,704
Director' and Supervisors' Remuneration (NT\$1,000)	0

Note: For employee stock bonuses NT\$4,245,852,065, the total issuance of new shares 4,005,520 shares is calculated based on the closing price (NT\$1,150) one day prior to the 2011 Annual General Shareholders' Meeting on an ex-dividend basis NT\$1,060. The amount of NT\$ 865 which is calculated less than one share will be distributed in the form of cash.

**(9) Share repurchases:**

2012.05.10

Topic	Explanation
Initial Estimation of Share Buy-back Status	
Board of Director resolution	07/16/2011
Purpose of the share buy-back (Note 3)	To stabilize stock price by maintaining company credibility and shareholders rights. According to the Regulations Governing Share Repurchase by Listed and OTC Companies, Article 2 requires off-setting of buy-back Treasury stocks.
Type of share buy-back	Common stock
Total amount allocated for share buy-back	NTD 11,000,000,000
Buy-back period	07/18/2011-08/17/2011
Estimated number of buy-back shares (as percentage of total outstanding shares) (Note 1)	10,000,000 shares (1.22%)
Estimated buy-back price interval	Buy-back stock price is between NTD 900 to NTD 1,100. It is further resolved by the Board of Directors to continue buy-back of shares if the stock price falls under NTD 900.
Method of Buy-back	Buy-back shares from stock exchange

Actual Stock Buy-back Status	
Buy-back period	07/21/2011-08/17/2011
Number of buy-back shares (as a percentage of total shares outstanding) (Note 2)	10,000,000 shares (1.16%)
Total amount for buy-back shares	NTD 8,509,335,774
Average price per buy-back share	NTD 850.93
Number of shares cancelled or transferred	Cancelled 10,000,000 shares
Cumulative number of own shares held	20,825,045 shares
Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company's issued shares	2.44%

Initial Estimation of Share Buy-back Status	
Board of Director resolution	07/16/2011
Purpose of the share buy-back (Note 3)	To transfer stocks to employees. According to the Regulations Governing Share Repurchase by Listed and OTC Companies, Article 2 requires to buy back Treasury stocks.
Type of share buy-back	Common stock
Total amount allocated for share buy-back	NTD 11,000,000,000
Buy-back period	08/18/2011-09/17/2011
Estimated number of buy-back shares (as percentage of total outstanding shares) (Note 1)	10,000,000 shares (1.22%)
Estimated buy-back price interval	Buy-back stock price is between NTD 900 to NTD 1,100. It is further resolved by the Board of Directors to continue buy-back of shares if the stock price falls under NTD 900.
Method of Buy-back	Buy-back shares from stock exchange

Actual Stock Buy-back Status	
Buy-back period	08/18/2011-09/16/2011
Number of buy-back shares (as a percentage of total shares outstanding) (Note 2)	10,000,000 shares (1.16%)
Total amount for buy-back shares	NTD 7,576,762,585
Average price per buy-back share	NTD 757.68
Number of shares cancelled or transferred	0 share
Cumulative number of own shares held	20,825,045 shares
Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company's issued shares	2.44%

(Continued)



Topic	Explanation
Initial Estimation of Share Buy-back Status	
Board of Director resolution	12/20/2011
Purpose of the share buy-back	To transfer stocks to employees. According to the Regulations Governing Share Repurchase by Listed and OTC Companies, Article 2 requires to buy back Treasury stocks.
Type of share buy-back	Common stock
Total amount allocated for share buy-back	NTD 6,500,000,000
Buy-back period	12/20/2011-02/19/2012
Estimated number of buy-back shares (as percentage of total outstanding shares) (Note 1)	10,000,000 shares (1.16%)
Estimated buy-back price interval	Buy-back stock price is between NTD 445 to NTD 650. It is further resolved by the Board of Directors to continue buy-back of shares if the stock price falls under NTD 445.
Method of Buy-back	Buy-back shares from stock exchange
Actual Stock Buy-back Status	
Buy-back period	12/30/2011-02/17/2012
Number of buy-back shares (as a percentage of total shares outstanding) (Note 2)	6,914,000 shares (0.81%)
Total amount for buy-back shares	NTD 3,750,055,902
Average price per buy-back share	NTD 542.39
Number of shares cancelled or transferred	0 share
Cumulative number of own shares held	20,825,045 shares
Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company's issued shares	2.44%

(Concluded)

Note 1: The percentage is calculated based on the total outstanding shares when the Company reported share repurchase.

Note 2: The percentage is calculated based on the total outstanding shares when the Company reported expiration of repurchase period or completion of the repurchase.

Note 3: The repurchase purpose was approved by the Board of Directors for the amendment of repurchase purpose on Oct. 28, 2011, and such amendment was also approved by Financial Supervisory Commission.

## 2. Issuance of corporate bonds

None

## 3. Status of Preferred shares

None

## 4. Global depository receipts

		2012.03.31	
Issue Date		2003.11.19	
Issuance and Listing		Luxembourg	
Total amount		USD 105,182,100.60	
Offering price per GDR		USD 15.4235	
Units issued		9,015,121 units (note)	
Underlying securities		Cash offering and common shares from selling shareholders	
Common shares represented		36,060,497 shares (note)	
Rights and obligations of GDR holders		Same as that of common share holders	
Trustee		Not applicable	
Depository bank		Citibank, N.A.-New York	
Custodian bank		Citibank Taiwan Limited	
GDRS outstanding		2,306,210 units	
Apportionment of expenses for issuance and maintenance		All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of GDRS were borne by HTC and the selling shareholders, while maintenance expenses such as annual listing fees and accounting fees were borne by HTC.	
Terms and conditions in the deposit agreement and custody agreement		See deposit agreement and custody agreement for details	
Closing price per GDR	2011	High	USD 172.67
		Low	USD 50.00
	2012.01.01-2012.03.31	Average	USD 117.83
		High	USD 89.90
		Low	USD 59.86
		Average	USD 75.66

Note: The total number of units issued includes the 6,819,600 units originally issued (representing 27,278,400 shares of common stock) plus additional units issued in stock dividends in past years on common shares underlying the overseas depository receipts, as itemized below.  
18 August 2004: dividends issued on common shares underlying the overseas depository receipts in the amount of 216,088 additional units (representing 864,352 common shares)  
12 August 2005: dividends issued on common shares underlying the overseas depository receipts in the amount of 70,290 additional units (representing 281,161 common shares)  
1 August 2006: dividends issued on common shares underlying the overseas depository receipts in the amount of 218,776 additional units (representing 875,107 common shares)  
20 August 2007: dividends issued on common shares underlying the overseas depository receipts in the amount of 508,556 additional units (representing 2,034,224 common shares)  
21 July 2008: dividends issued on common shares underlying the overseas depository receipts in the amount of 488,656 additional units (representing 1,954,626 common shares)  
9 August 2009: dividends issued on common shares underlying the overseas depository receipts in the amount of 170,996 additional units (representing 683,985 common shares)  
3 August 2010: dividends issued on common shares underlying the overseas depository receipts in the amount of 311,805 additional units (representing 1,247,223 common shares)  
26 July 2011: dividends issued on common shares underlying the overseas depository receipts in the amount of 210,354 additional units (representing 841,419 common shares)

## 5. Employee share warrants

1. During the current fiscal year up to the date of printing of this annual report, HTC has not issued any employee share warrants.
2. During the current fiscal year up to the date of printing of this annual report, HTC does not have unexpired employee share warrants outstanding.

## 6. Issuance of new shares for mergers and acquisitions

1. During the current fiscal year up to the date of printing of this annual report, the Company has not issued new shares for mergers and acquisitions.
2. During the current fiscal year up to the date of printing of this annual report, the Board of Directors has not adopted any resolution to issue new shares for mergers and acquisitions.

## 7. Implementation of the Company's funds utilization plan

The Company does not have unfinished funds utilization plans or plans that have not produced the desired benefits during the fiscal year up to the date of printing of this annual report.

A large, light brown, stylized number '6' graphic is positioned on the left side of the page. It consists of a thick, curved line that forms the top and right sides of the '6', and a solid white circle at the bottom left, creating a negative space. The graphic is semi-transparent, allowing the text to be visible through it.

**FINANCIAL STATUS,  
OPERATING RESULTS  
AND RISK  
MANAGEMENT**

# FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

## 1. FINANCIAL STATUS

Unit : NT\$ thousands

Item	2011	2010	Difference	
			Amount	%
Current Assets	193,427,606	168,606,486	24,821,120	15
Long-term Investments	3,685,262	1,232,145	2,453,117	199
Fixed Assets	21,512,478	14,024,329	7,488,149	53
Intangible Assets	22,560,788	935,650	21,625,138	2,311
Other Assets	13,405,992	5,583,134	7,822,858	140
<b>Total Assets</b>	<b>254,592,126</b>	<b>190,381,744</b>	<b>64,210,382</b>	<b>34</b>
Current Liabilities	152,129,860	115,641,103	36,488,757	32
Long-term Liabilities	-	12,188	(12,188)	(100)
Other Liabilities	42,946	13,959	28,987	208
<b>Total Liabilities</b>	<b>152,172,806</b>	<b>115,667,250</b>	<b>36,505,556</b>	<b>32</b>
Capital Stock	8,520,521	8,176,532	343,989	4
Capital Surplus	16,619,594	10,820,744	5,798,850	54
Retained Earnings	86,616,845	63,150,566	23,466,279	37
Equity Adjustments	34,780	(580,855)	615,635	(106)
Treasury Stock	(10,365,144)	(6,852,493)	(3,512,651)	51
Equity Attributable to Stockholders of the Parent	101,426,596	74,714,494	26,712,102	36
Minority Interest	992,724	-	992,724	-
<b>Total Stockholders' Equity</b>	<b>102,419,320</b>	<b>74,714,494</b>	<b>27,704,826</b>	<b>37</b>

\*All numbers above are based on consolidated financial statements.

## Explanations for any material changes in HTC's assets, liabilities, and shareholders' equity in the most recent two fiscal years

**Asset:** Long-term investments grew 199% or around NT\$2.5 billion in 2011. The increase was mainly for the new investments in OnLive and KKBOX to largely channeled to technology R&D, market development. HTC expended the headquarter campus in Taoyuan and built a new Taipei Headquarter building to alleviate current space shortages and prepare for anticipated growth needs. Production capacity was increased at HTC Taoyuan and Shanghai plants to address market demand. These activities increased 2011 fixed assets by 53%, or NT\$7.5 billion, over 2010 levels. Intangible assets in 2011 rose by 2,311%, or NT\$21.6 billion, over 2010 levels. This was mainly due to the technology and brand-name advantages accrued with the purchase of numerous patents from S3 Graphics Co., Ltd. etc. and the acquisitions of Saffron Media Group Ltd., Dashwire, Inc., Beats Electronics, LLC, and Inquisitive Minds, Inc. The NT\$7.8 billion increase in other assets in 2011 was principally royalty prepayments to earn the discounts on royalty and per unit prices for goods. Total assets in 2011 were NT\$254.6 billion, a 34%, or NT\$64.2 billion increase over 2010.

**Debt:** Aggressive increases of inventory to meet strong demand and anticipated continued demand growth led to an NT\$15.3 billion (25%) increase in notes and accounts payable at the close of 2011 compared with year-end 2010. Strong business growth spurred complementary rises in associated liabilities. These included an NT\$3.8 billion rise in accrued income tax, NT\$11.8 billion rise in accrued marketing expense, and NT\$4.0 billion rise in reserve for warranty expenses. The additional NT\$36.5 billion in current liabilities at the end of 2011 as compared to 2010 fueled this year's 32% growth in total liabilities to NT\$152.2 billion.

**Shareholders' Equity:** Rise in capital surplus of NT\$5.8 billion in 2011 was from the issuance of employees stock bonus and the transfer of treasury shares to employees' shares issued in excess of par value. We attribute the rise in retained earnings this year primarily to 2011's rapid business growth that increased net income by NT\$22.8 billion. Higher equity adjustments for the year were due to exchange rate volatility that increased cumulative translation adjustments by NT\$610 million from year-end 2010. HTC initiated share repurchases in 2011 to protect shareholder equity that spent NT\$16.1 billion to purchase 20.1 million HTC shares and cancel 10 million shares. In June 2011 HTC transferred 5,875,000 treasury shares to employees as performance incentive bonuses. At the close of 2011 HTC's total shareholder equity stood at NT\$102.4 billion, a rise of NT\$27.7 billion or 37% over year-end 2010.

## 2. OPERATING RESULTS

Unit : NT\$1,000

Item	2011	2010	Difference	%
Revenues	465,794,773	278,761,244	187,033,529	67
Cost of Revenues	333,997,246	194,892,505	139,104,741	71
Gross Profit	131,797,527	83,868,739	47,928,788	57
Operating Expenses	63,009,760	39,736,158	23,273,602	59
Operating Income	68,787,767	44,132,581	24,655,186	56
Nonoperating Income and Gains	2,783,264	1,142,944	1,640,320	144
Nonoperating Expenses and Losses	147,344	311,137	(163,793)	(53)
Income From Continuing Operations Before Income Tax	71,423,687	44,964,388	26,459,299	59
Income Tax	9,124,639	5,449,544	3,675,095	67
Income From Continuing Operations	62,299,048	39,514,844	22,784,204	58
Net Income	62,299,048	39,514,844	22,784,204	58
Net Income Attributable to Stockholders of the Parent	61,975,796	39,533,600	22,442,196	57

\*All numbers above are based on consolidated financial statements.

## Explanations for any material changes in HTC's revenues, operating income, and pre-tax income in the most recent two fiscal years

We attribute HTC's 67% growth in revenues in 2011 to several popular phone models launched by the company in 2011 and to generally strong global demand for smartphones. HTC's revenues in 2011 topped NT\$465.8 billion, an NT\$187.0 billion (67%) increase over 2010.

We have continuously enhanced operating efficiencies and streamlined cost structures as business expands rapidly. HTC's gross profit grew 57% in 2011 to NT\$131.8 billion. Programs to enhance brand recognition for HTC and improve user experience grew operating expenses by NT\$23.3 billion or 59%. Operating income grew this year by NT\$24.7 billion (56%) to NT\$68.8 billion.

HTC's revenue comes mainly from its primary business. Income from interest, forex gain/loss, and valuation gain/loss on financial instruments accounted for nearly all non-operating gain/loss. Net non-operating income and gains in 2011 grew 217% to NT\$2.6 billion. Net income before tax rose by NT\$26.5 billion (59%) to NT\$71.4 billion.

## 3. Cash Flows

### (1) Analysis of change in cash flow for the most recent fiscal year

Item	Year	2011	2010	%
Cash Flow Ratio (%)		58	40	45
Cash Flow Adequacy Ratio (%)		158	150	5
Cash Flow Reinvestment Ratio (%)		53	32	66

#### Explanation and analysis of change

Business growth in 2011 increased annual revenues by 67% resulting in a 92% growth in net cash flow from operating activities to NT\$88.5 billion. Current liabilities saw a corresponding rise by 32% over the previous year, causing the cash flow ratio to increase to 58%. Continued capacity and office expansion by HTC and its affiliates to meet anticipated future demand coupled with increased inventories to meet current market demand increased cash flow adequacy ratio to 158%. Cash flow reinvestment ratio rose to 53% due to a 126% rise in the numerator (net cash flows from operating activity – cash dividends) since net cash flow from operating activities increased 92% and cash dividend payments increased 49% compared to 2010.

### (2) Cash flow analysis for next year

We expect our net cash flows from operating activities and ample cash on-hand can fully support capital expenditures, cash dividends and all other cash needs in 2012.

## 4. The Effect On Financial Operations Of Material Capital Expenditures During The Most Recent Fiscal Year

### (1) Review and analysis of material capital expenditures and funding sources

#### 1. Material capital expenditure and funding sources

Unit : NT\$1,000

Planned items	Actual or projected sources of capital	Actual or projected date of completion	Total capital needed (as of 12/31/2011)	Actual or projected capital utilization		
				2009	2010	2011
Purchase and Installation of Equipment / Facilities	working capital	2009-2011	7,726,648	490,166	3,289,848	3,946,634
Plant/Building Construction	working capital	2009-2011	7,692,327	1,260,347	1,941,918	4,490,062

#### 2. Anticipated Benefits

##### (1) New Plant/Building Construction

The new Taoyuan Headquarters campus and Taipei headquarters building are essential to expanding production and providing HTC employees with an appropriate working environment.

##### (2) New Equipment / Facilities

Replacement / upgrade of equipment and facilities is critical to enhancing productivity and meeting rising market demand.

## 5. Investment Diversification in Recent Years

HTC's direct Investment strategy focuses on the industry segments that enhance HTC's core businesses and long-term strategic developments. Evaluation analysis is based on industry dynamics, market competition, founding team experience, business model and risk analysis. The final goal is to make key strategic investments (via minority or control) in companies and industries that strengthen HTC's product and service offerings and its long-term competitiveness.

HTC made several strategic investments in 2011, for example, trend-setting high-performance headphones company Beats, online media & marketing firm Saffron Media Group; Interactive online gaming platform firm Onlive; Mobile web connected services platform Dashwire; and Children's learning applications platform company Zoodles. In the Greater China region, we invested in mobile banking solutions firm Shanghai F-road Commercial Services Co., Ltd.

## 6. Competitive Advantages, Business Growth and Assessment of Risks

### (1) Potential Factors That May Influence HTC's Competitiveness/Business Growth and Related Countermeasures

Critical competitive factors in HTC's industry include: 1) product R&D and innovation capabilities, 2) strategic partnerships with industry leaders and 3) accurate grasp of market trends. The following assesses HTC's competitiveness in terms of factors deemed to support and detract from HTC achieving its business goals.

## Factors Favorable to HTC Growth

### 1. Partnerships with Industry Leaders Help HTC Drive Industry Trends

HTC has always developed smartphone products in close cooperation with industry leaders such as Google, Microsoft, Qualcomm as well as the world's leading telecom operators. Examples include HTC's launch of the world's first Windows Mobile smartphone and first Android smartphone. Our strong partnerships deliver greater choice to consumers while continuing to drive industry innovation.

### 2. Long-term Cooperative Relationships with Telecom Operators Keep HTC Abreast of Consumer Demand

HTC promotes products directly to mass-market consumers via long-term, unique relationships with the world's largest telecommunications service providers that include the four big mobile operators in the United States, five major operators in Europe and several fast growing carriers in Asia. These relationships not only keep HTC abreast of user demand but also allow HTC to better tailor its products and services to the needs of each carrier partner.

### 3. Diverse and growing universe of mobile data services drives smartphone market penetration

New mobile phone operating systems such as Android and iOS, which permit easy app store downloading of social networking, shopping, travel, game and other software, are attracting even more consumers to the ranks of smartphone users. Smartphone industry is now in the strong growing stage, and telecom operators' aggressively rollout of 4G fastest mobile Internet networks to stimulate growth even further. These developments should all impact positively on HTC business growth prospects.

### 4. Instilling a positive corporate culture enhances organizational flexibility and responsiveness

HTC promotes a unique corporate culture that is designed to instill passion for innovation and commitment to the highest standards. Our lack of barriers between departments promotes synergy and dynamism even further. HTC's highly efficient operations have been affirmed by numerous international quality standards including ISO-9001, ISO-14001, ISO-14064-1, TL-9000, and OHSAS 18001. Outstanding in-house research and development capabilities give HTC the competitive edge to reach the market first with many industry leading innovations and features.

### 5. Comprehensive domestic industry infrastructure supports current and future growth needs

Active government and private sector efforts to grow the domestic high tech sector in recent decades have given Taiwan a strong foundation of skilled researchers and technicians. Taiwan is further benefiting from increasingly coherent industry supply and support systems and industry clustering effects. In addition to making it easier for us to recruit and retain personnel, these developments increasingly allow us to cooperate with domestic and international suppliers in order to lower purchase costs and respond even faster to industry trends and changes.

## Factors Adverse to the Achievement of HTC Growth Goals and Relevant Countermeasures

Many current and potential competitors are now active in the smartphone market looking to benefit from current rapid growth in worldwide demand. Competition should continue to intensify as the smartphone user base grows, smartphone functions and features increase, and smartphone product lifecycles shorten. The following outlines HTC measures designed to respond to such challenges.

1. We work actively to establish HTC brand value, enhance global brand recognition and preference, and leverage effective brand management activities and product promotions to establish the HTC brand as consumers' "first choice" in smartphones.
2. We emphasize innovation to maintain a leading competitive edge. Product differentiation and innovations in user experience allow us to develop a wide range of products tailored to meet diverse consumer needs. HTC Sense™ is designed with customer at the center to make mobile phones more intuitive and easy to use.
3. We enhance product design, mass production, technical support, distribution, and after-sales services for our customers in order to strengthen strategic alliances with global industry leaders and remain aligned with industry trends and developments.
4. We regularly upgrade our materials requirement planning (MRP) system to improve our ability to manage material inventories and anticipate future demand in order to lower inventory costs and reduce inventory devaluation risks. We continue to build and diversify supplier relationships to enhance supply stability. Our objectives are consistent and uninterrupted supply of all materials and a highly competitive cost structure.

5. We work hard to maximize the productivity of each link in our business chain, enhance time management, standardize workflows and fully implement ISO quality control practices in order to improve competitiveness through reduced process and communications costs and comprehensive quality management.
6. HTC's leadership in the industry helps ensure that suppliers accommodate and meet HTC priorities in expanding market sales. This helps mitigate risks related to reliance on overseas suppliers for many critical components. We further benefit from close strategic relationships that help ensure supplier support and favorable purchase terms.
7. As the fastest growing sector of Taiwan's economy, the electronics industry requires a steady stream of human resources. Downsizing in the manufacturing sector has increased the difficulty in hiring entry-level workers. HTC plans to continue to hire local and foreign workers, also work with schools to help increase domestic hiring in the future.

## (2) Risk Factors

The following describes identified risks and related mitigating measures.

### 1. Interest, forex, and inflation rate risks and mitigating measures :

Impact on HTC profitability:

Item	2011 (NT\$1,000 or %)
Net Interest Income	670,745
Net Forex Income	1,777,511
Net Interest Income as percentage of net revenue	0.14%
Net Interest Income as percentage of Earnings Before Tax	0.94%
Net Forex Income as percentage of net revenue	0.38%
Net Forex Income as percentage of Earnings Before Tax	2.49%

Note: Calculated on HTC consolidated financial numbers

Working capital required to support the expansion of HTC business operations has over recent years been supplied exclusively from internal finances. As the corporation has taken out no long-term loans, fluctuations in interest rates have had no effect on the Company's liabilities. HTC is prudent in its financial policies. Asset allocation decisions prioritize security and fluidity, with most funds kept in time deposit accounts. During 2011, HTC interest income totaled NT\$670 million.

HTC revenues are denominated primarily in US dollars (USD) and euros (EUR). Manufacturing costs are denominated primarily in US dollars. Forex fluctuations have the potential to impact HTC revenues, operating costs and operating profits. Apart from careful management of the quality and payment cycles of its foreign currency-denominated accounts receivable, HTC uses forward exchange contracts to minimize its forex risk. At the close of 2011, financial derivatives held by HTC related to exchange risk were valued at EUR339 million, GBP17.1 million, CNH 671.7 million and CAD 28.9 million. Fair value of the derivatives changes as a result of forex fluctuations. A fall of 1% in the quoted exchange rate of any one of the abovementioned currencies against the NT dollar would result in a derivatives holding benefit to HTC of approximately NT\$181.5 million.

During 2011, the euro appreciated against the NT dollar from 1:39 to 1:42, but depreciated against the NT dollar to 1:39 at the end of the year. The US dollar rose from 1:29 against the NT dollar to approximately 1:30.3. Net exchange income earned during 2011 totaled NT\$1,777,511 thousand. Under effective management by the Company, negative effects of exchange rate fluctuations on profits in recent years have been minimal.

Inflation in Taiwan was approximately 1.42% in 2011. Inflation rates in North American and European markets were also relatively negligible. Overall, inflation had no significant impact on HTC profits.

### 2. Risks associated with high-risk/high-leveraged investment; lending, endorsements, guarantees for other parties and financial derivative transactions

HTC does not engage in high-risk ventures or highly leveraged investments. Loaning of funds takes place only between HTC subsidiaries. All such arrangements must be reviewed and approved by the board of directors in accordance with the Operational Procedures for Fund Lending and Rules for Endorsements and Guarantees. HTC engages in derivative products trading only to mitigate forex risks arising from foreign currency assets and liabilities. All derivative trading is conducted according to stipulations written in the Procedures for Acquisition or Disposal of Assets.



### 3. Future R&D plans and anticipated R&D expenditures

Since its inception, HTC has invested consistently to solidify in-house R&D capabilities. Today, R&D professionals account for almost 30% of HTC's headcount, and annual R&D investments regularly represent 3 to 5 percent of total revenues. HTC products are frequent trailblazers, earning a long line of "firsts" that includes the world's first Windows Mobile and Android smartphones, first dual-mode GSM/WiMAX phone, first 3G Android phone, and first 4G LTE Android phone. HTC Sense™, launched in 2009, was a momentous breakthrough that revolutionized the mobile phone experience. In 2011, HTC launched several enhanced cloud and audio-visual services such as HTC Watch and Beats Audio™, such exclusive service features uniquely enhance and enrich the HTC user experience.

HTC has earned its leading position in the smartphone sector through innovation and exceptional understanding of industry and consumer trends. Nowhere is this more apparent than in the Android and Windows Phone markets. In 2011, with markets shifting up to 4G high-speed mobile networks, HTC launched HTC Thunderbolt and HTC Titan II - the world's first LTE Android LTE Windows Phone smartphones. Milestones like these further highlight HTC's leadership in critical technologies.

In the second half of 2011, HTC Sensations' integration of superior Beats Audio™ sound technology delivers unprecedented recording-studio quality that greatly extends the smartphone user experience. Besides, HTC Titan and HTC Radar meet a diverse range of user needs running Windows Phone 7.5, Microsoft's latest mobile phone OS.

In 2012 Mobile World Congress (MWC), HTC unveiled its new HTC One series of smartphones that represent its most premium mobile experience with a new level of iconic design and amazing camera and authentic sound experience. The HTC One series integrates Android 4.0 (ICS) and features longer battery life and high performance new quad-core mobile processor and an amazing HD screen Super LCD 2 with custom HTC ImageChip. With HTC Sense™ 4, the new version of HTC's branded user experience that is introducing HTC ImageSense™, a new suite of camera and imaging features that set HTC One apart from other phones. HTC Sense™ 4 also includes broad enhancements to audio quality and simplifies how people listen to music on their phone.

### 4. Effects of domestic / foreign government policies and regulations on HTC finances and response measures

The Taiwan Financial Supervisory Commission (FSC) requires listed companies to prepare financial statements in accordance with Internal Financial Reporting Standards (IFRS) starting from January 1, 2013. HTC has setup an IFRS project team and has launched the project plan for its IFRS adoption. In addition, the progress of such adoption is regularly reported to the Board. As of December 31, 2011, all potential significant difference between IFRS and current accounting policy had been identified. Full disclosure of the IFRS implementation status was included in the footnote of 2011 financial report. We will keep monitoring the update of IFRS and the development of related laws and regulations in Taiwan and evaluate the respective impact to HTC, and will disclose such impact in 2012 quarterly financial reports as required by law.

Apart from the above, changes in domestic and overseas government policies and laws should have no significant impact on HTC finances. We will remain vigilant with regard to future changes and take measures that best satisfy HTC's business operation needs.

### 5. Effects on HTC finances of changes in technology and industry trends and response measures

Wireless telecommunications is an important growth sector within the IT industry and the smartphone is its flagship product. Responding to rapid mobile internet growth and communication technology migration to 3G/4G, HTC has leveraged outstanding R&D capabilities in partnerships with global telecom leaders to launch numerous "world firsts" that include the world's first Windows Mobile, Android, dual mode GSM/WiMAX, and LTE Android mobile phones. The launch of a diverse range of products through many carriers worldwide has built up HTC's significant position in the global telecommunications industry and created exceptional business opportunities. HTC will continue to use its resources to develop new technologies and enhance the holistic user experience in order to deliver products and services that fit market demand.

### 6. Effect of changes in the company's corporate image on the company's crisis management protocol and mitigating measures

HTC maintains high professional ethics and effective control over its operations. Corporate honesty and ethics rules effectively bar all in the HTC organization from engaging in dishonest or unethical practices.

### 7. Anticipated benefits / potential risks related to mergers and acquisitions and mitigating measures

Mergers and acquisitions in recent years have focused on raising overall product value and enriching the HTC user experience. All such activities have been funded internally. Future mergers and acquisitions will be conducted after careful consideration of expected benefits and in accordance with all relevant government laws and corporate regulations.

### 8. Anticipated benefits / potential risks of HTC plant expansion plans and mitigating measures

Apart from regularly enhancing production capacity, quality and optimizing costs, HTC is working to meet rising smartphone demand by expanding capacity. HTC's board of directors approved to build a new office and production building at the HTC Taoyuan headquarters to meet future growth, the expended capacity is expected to support the market demand in 2012.

### 9. Concentration risks associated with goods received and sold and mitigating measures

#### (1) Purchases:

The skills and capabilities of materials / components suppliers are maturing in step with mobile phone technologies. Growing opportunities to source materials from multiple suppliers reduce the risk of overreliance on one or several suppliers. HTC also purchases in volume to reduce unit costs and optimize cost structures.

#### (2) Sales:

HTC products are distributed across the Americas, Europe and Asia primarily through major carriers and local retail channels. The influence of carriers can be expected to rise in the new age of 3G/4G wireless standards, which is expected to benefit HTC product penetration. Apart from working with current customers to expand markets and strengthen strategic partnerships, HTC continues to discuss potential cooperative projects with leading IT and telecom companies in order to remain at the fore of market trends. HTC is also developing the HTC brand and

strengthening relationships with channel retailers in order to reduce business and sales concentration risks.

### 10. Effect upon and risk to the company in the event a major quantity of shares belonging to a director, supervisor, or shareholder holding greater than a 10 percent stake in the company has been transferred or otherwise changed hands and mitigating measures being or to be taken:

As of the printing of this annual report date, no transfer of significant portions of HTC share rights has occurred with respect to any director, supervisor, or major shareholder holding more than a 10 percent stake in the company.

### 11. Effect upon and risk to the company associated with any change in governance personnel or top management and mitigating measures being or to be taken:

There was no change in HTC managerial control in 2011.

### 12. Lawsuits and other non-litigation legal proceedings related to the corporation; its directors, supervisors, president, senior executives; major shareholders owning greater than 10% of outstanding shares; and corporate subsidiaries, the results of which could significantly affect shareholder rights and / or share prices.

Major lawsuits, non-litigation legal proceedings or administrative litigations currently involving HTC:

- (1) In April 2008, IPCom GMBH & CO., KG (IPCom) filed a multi-claim lawsuit against HTC with the District Court of Mannheim, Germany, alleging that HTC infringed IPCom's patents. In November 2008, HTC filed declaratory judgment action for non-infringement and invalidity against three of IPCom's patents with the Washington Court, District of Columbia. In October 2010, IPCom filed a new complaint against HTC alleging patent infringement of patent owned by IPCom in District Court of Dusseldorf, Germany. In June 2011, IPCom filed a new complaint against HTC alleging patent infringement of patent owned by IPCom with the High Court in London, the United Kingdom. In September 2011, HTC filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in above-mentioned courts in Germany and the United Kingdom are still ongoing. HTC evaluated the lawsuits and consider



the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against HTC are very unlikely. In March 2012, Washington Court granted on HTC's summary judgment motion and ruled on non-infringement of two of patents-in-suit (the other patent is still reviewed by the court.) As of April 24, 2012, the date of the accompanying independent accountants' review report, there had been no critical hearing nor had a court decision been made, except for the above.

- (2) In March 2010, Apple Inc. ("Apple") filed a lawsuit against the Company, H.T.C. (B.V.I.) Corp., HTC America, Inc. and Exedea, Inc. ("the Company") concurrently with the U.S. International Trade Commission ("ITC") (ITC No. 337-TA-710) 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 (ITC No. 337-TA-721) 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.

In July, 2011, the Company acquired the business operation and ownership of patent portfolio of S3 Graphics Co., Ltd. ("S3 Graphics") and the acquisition has been completed in November, 2011. In July, 2011, Apple filed another ITC investigation (ITC No. 337-TA-797) and a companion district court case in Delaware against the Company alleging patent infringement; Apple also filed patent infringement lawsuits against the Company with the District Courts of Munich and Mannheim, Germany. In response to those German lawsuits filed by Apple, the Company filed nullity actions against all patents asserted by Apple in German Federal Patent Court and UK High Court. In August 2011, the Company filed another ITC investigation (ITC No. 337-TA-808) and a companion district court case in Delaware against Apple alleging patent infringement against Apple. On September 22, 2011, S3 Graphics filed another ITC investigation (ITC No. 337-TA-813) and a companion district court case in Delaware against Apple alleging infringement of its patents.

In December 2011, the Company received the notice of ITC committee's final determination in the Apple vs. HTC case, (ITC No. 337-TA-710). Apple originally asserted 10 of its patents against the Company in March 2010, and the ITC Committee ruled that the Company infringed on 1 patent. Apple has appealed and the Company is implementing workaround into new products. As for the investigation filed by the Company against Apple (ITC No. 337-TA-721), on October 17, 2011, the ITC judge issued his initial determination and ruled that Apple does not infringe the 4 asserted patents owned by the Company. The Company has appealed.

- (3) In January 2012, Eastman Kodak (Kodak) filed a lawsuit against HTC concurrently with the U.S. International Trade Commission (ITC) and U.S. District Court of Western District of New York (New York court), alleging that these companies infringed its patents. Kodak requested ITC and New York court to prevent HTC from exporting to and selling in United States devices made using Kodak's patents and damage compensation, respectively. HTC evaluated that there was indirect association between the patents used by HTC's devices and those claimed by Kodak. HTC believes the lawsuits have limited impact on its financial results or sales activities. As of April 24, 2012, the date of the accompanying independent accountants' review report, there had been no further hearing nor had a court decision been made.
- (4) HTC had examined circumstances and related information of the cases, 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 for.

### 13. Other important risks and mitigating measures being or to be taken: None


### 14. Risk Management Organization Structure

Responsible/Implementation Unit	Control Item	Implementation Tasks
Legal Department	Contractual and Legal Risk	Manage overall corporate contractual risk
Finance and Accounting Division	Business Strategy and Financial Risks	Responsible for capital allocation and management, investment planning, customer credit control, operational analysis, and cost analysis
Internal Audit	Internal Control Risk	Assess comprehensiveness and effectiveness of internal control systems
Global Product Division	Product Trend Risk	Identify future product development trends and customer demands
Design Quality & Engineering Service Division	Product Design and Quality Risks	Ensure design quality of HTC products with regard to hardware, software and product safety
Manufacturing Operation Center	Production Quality Risk	Enhance production quality
Customer Service and Quality Assurance Division	Product Quality Risk	Provide after-sales service and enhance the quality of such

## 7. Other Important Matters

### (1) Certification Details of Employees Whose Jobs are Related to the Release of the Company's Financial Information

Certification	Number of Employees	
	Finance and Accounting Division	Internal Audit
Certified Public Accountants (CPA)	6	2
Internal Auditor	3	3
US Certified Public Accountants (US CPA)	3	1
Certified Internal Auditor (CIA)	-	2
Chartered Financial Analyst (CFA)	3	-
Financial Risk Manager (FRM)	2	-

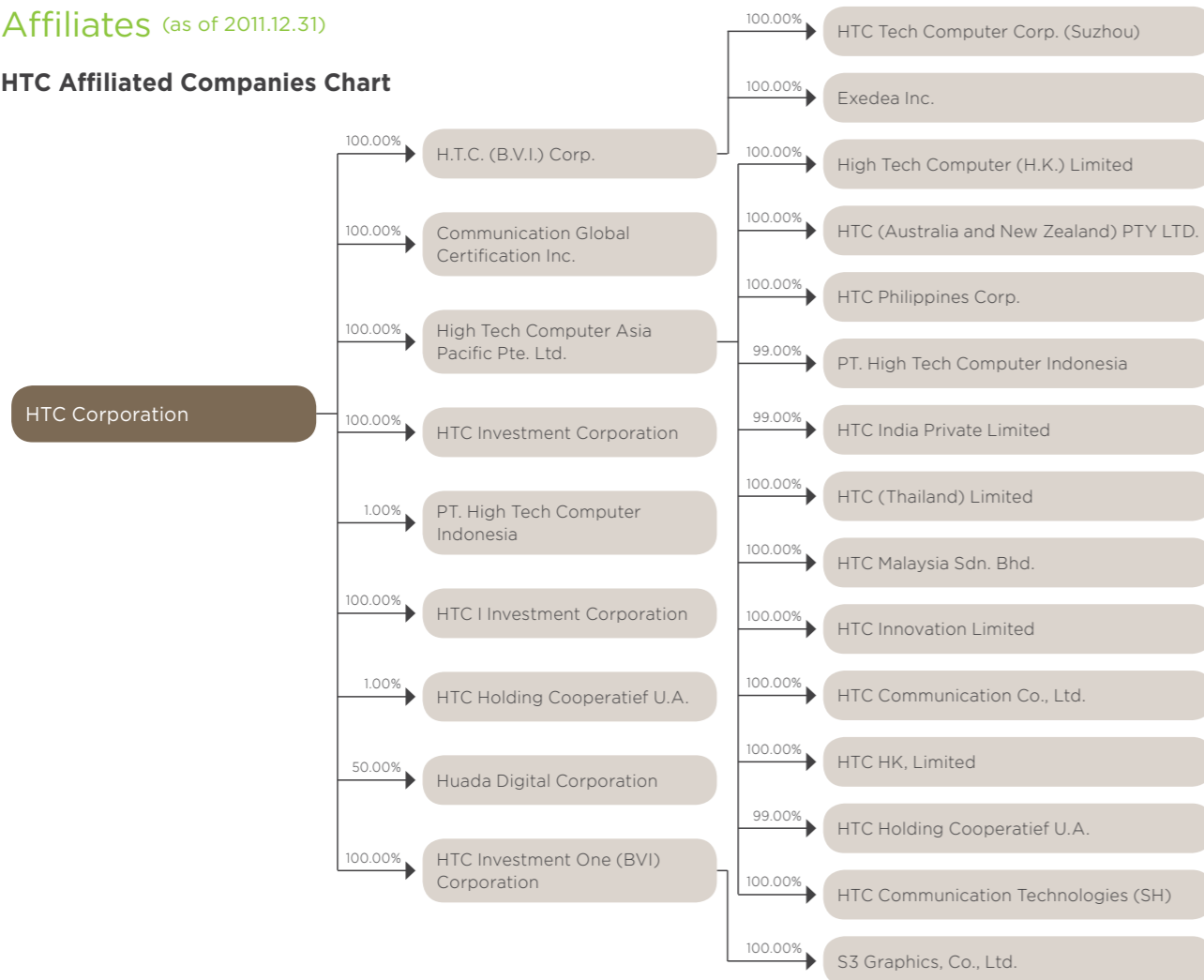


**AFFILIATE  
INFORMATION  
AND OTHER  
SPECIAL NOTES**

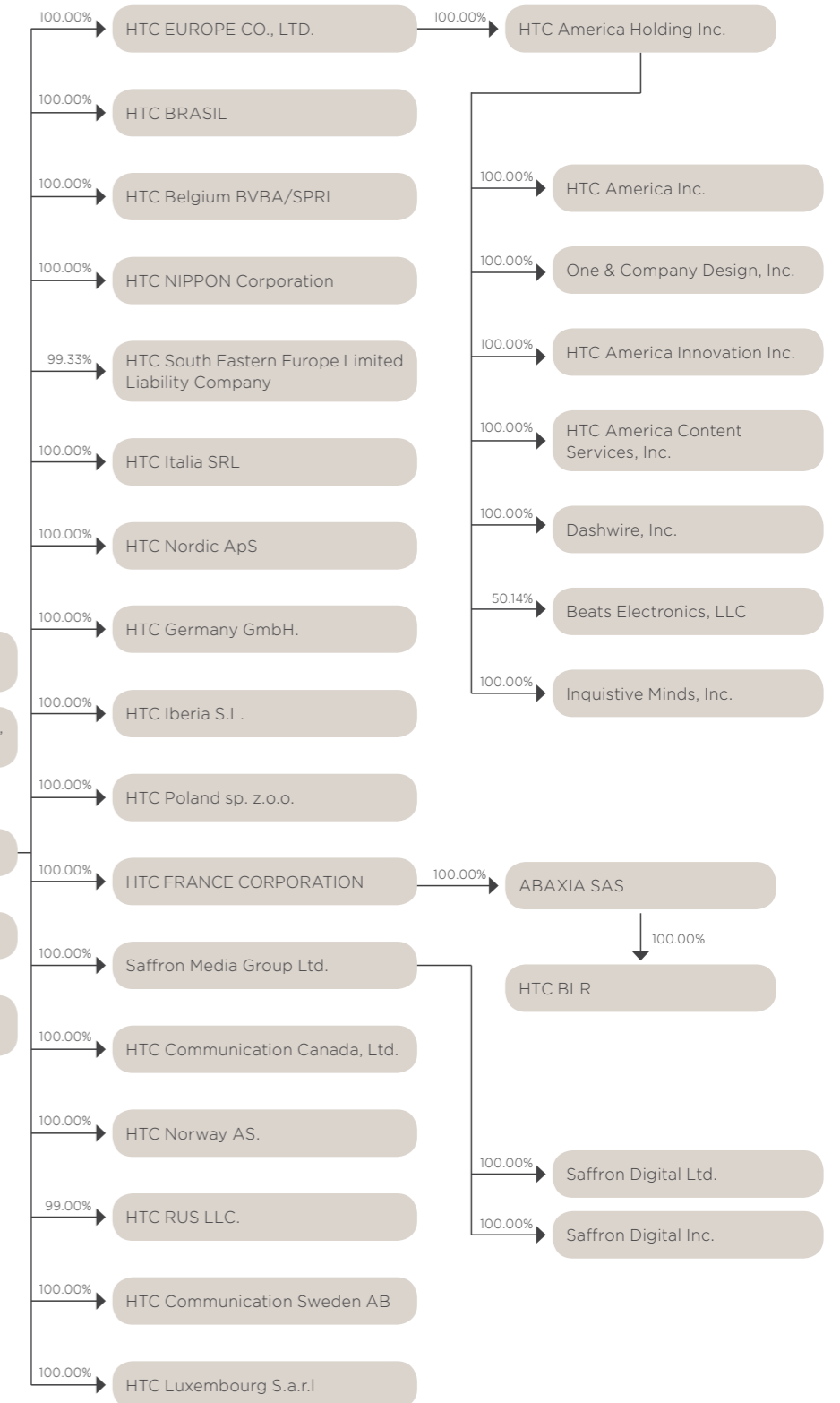
# AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

## 1. Affiliates (as of 2011.12.31)

### (1) HTC Affiliated Companies Chart



Mutually Invested Companies: None



## (2) HTC Affiliated Companies

2011.12.31 Amount in thousands

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investor:				
HTC Corporation	1997.05.15	No.23, Xinghua Rd., Taoyuan City, Taoyuan County 330, Taiwan, R.O.C.	NTD 8,520,521	Principally engaged in design, manufacture and marketing of PDA phones, smart phones and handheld devices, as well as the provision of related technologies and after services
Investee:				
H.T.C. (B.V.I.) Corp.	2000.08.01	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 2,514,732 (USD 83,052)	International holding
Communication Global Certification Inc.	1998.09.01	5F., No.364, Sec.2, Xiyuan Rd., Wanhua District, Taipei City 108, Taiwan, R.O.C.	NTD 200,000	Import of controlled telecommunications radio frequency devices and information software services
High Tech Computer Asia Pacific Pte. Ltd.	2007.07.12	260 Orchard Road #07-04 Heeren, Singapore	NTD 18,505,787 (SGD 793,397)	Global investing activities, marketing, distribution and after-sales service
HTC Investment Corporation	2008.07.24	5F., No.364, Sec.2, Xiyuan Rd., Wanhua District, Taipei City 108, Taiwan, R.O.C.	NTD 300,000	General investing activities
HTC I Investment Corporation	2009.09.14	5F., No.364, Sec.2, Xiyuan Rd., Wanhua District, Taipei City 108, Taiwan, R.O.C.	NTD 295,000	General investing activities
Huada Digital Corporation	2010.01.04	No.2-2, Aly. 8, Ln. 85, Sec. 3, Muzha Rd., Wenshan Dist., Taipei City 116, Taiwan, R.O.C.	NTD 500,000	Software service
HTC Investment One (BVI) Corporation	2011.06.20	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 9,689,341 (USD 320,002)	Holding S3 Graphics Co., Ltd. and general investing activities
High Tech Computer Corp. (Suzhou)	2003.01.01	Suzhou Industrial Park, China	NTD 605,580 (USD 20,000)	Manufacture and sale of smart handheld devices and electronic components
Exedea Inc.	2004.12.28	5950 Corporate Dr. Houston, Texas 77036 2306	NTD 30 (USD 1)	Distribution and sales
High Tech Computer (H.K.) Limited	2007.08.03	Unit 808-09A, 8th Floor, AIA Tower, 183 Electric Road, North Point, Hong Kong	NTD 77,941 (HKD 20,000)	Marketing, repair and after-sales services
HTC (Australia and New Zealand) PTY LTD.	2007.08.28	Suite 3002, Level 30, 100 Miller Street, North Sydney, Australia	NTD 122,963 (AUD 4,000)	Marketing, repair and after-sales services
HTC Philippines Corp.	2007.12.06	UNIT 32 3/F WORLDNET BUSINESS CENTER ZETA BLDG 191, SALCEDO ST LEGASPI VILLAGE, MAKATI CITY 1229	NTD 5,866 (PHP 8,588)	Marketing, repair and after-sales services
PT. High Tech Computer Indonesia	2007.12.03	PLAZA SEMANGGI 7th Floor, unit No. Z07-006 Kawasan Bisnis Granadha Jl. Jend. Sudirman Kav. 50 Jakarta -12930 Indonesia	NTD 5,608 (IDR 1,699,313)	Marketing, repair and after-sales services
HTC (Thailand) Limited	2007.11.06	No. 1 Fortune Town Building, 30th Floor, Unit No. A-3/1, Ratchadapisek Road, Kwang Dingdang Khet Dingdang, Bangkok, Thailand	NTD 23,998 (THB 25,000)	Marketing, repair and after-sales services
HTC India Private Limited	2008.01.30	315-315A, 3rd Floor, Rectangle No.1, District Commercial Complex-D4 Saket, New Delhi-110017 India	NTD 2,840 (INR 5,000)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investee:				
HTC Malaysia Sdn. Bhd.	2007.11.07	Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	NTD 2,383 (MYR 250)	Marketing, repair and after-sales services
HTC Innovation Limited	2009.01.30	4F, Seoul Finance Center. 84 Taepyung-ro 1-ka, Chung-ku, Seoul, 100-768 Korea	NTD 1,308 (KOW 50,000)	Marketing, repair and after-sales services
HTC Communication Co., Ltd.	2008.12.29	2F South, No.1000, Xinmiao Village, Kangqiao Town, Pudong New Area, Shanghai, China	NTD 832,673 (USD 27,500)	Sale of smart handheld devices and electronic components
HTC HK, Limited	2006.08.26	Unit 808-09A, 8th Floor, AIA Tower, 183 Electric Road, North Point, Hong Kong	NTD 3,207,837 (HKD 823,145)	International holding \ Marketing, repair and after-sales services
HTC Holding Cooperatief U.A.	2009.08.18	Orteliuslaan 850, 3528BB Utrecht	NTD 12,448,129 (EUR 317,671)	International holding
HTC Communication Technologies (SH)	2011.08.01	Room 102, No.2, Boujun Road, Zhang Jiang Hi-Tech Park, Shanghai, China	NTD 121,116 (USD 4,000)	Design, research and development of application software
S3 Graphics Co, Ltd.	2001.01.03	P.O. Box 709 George Town Grand Cayman	NTD 10,683,642 (USD 352,840)	Design, research and development of graphics technology
HTC Corporation (Shanghai WGQ)	2007.07.09	6A, No.288, Hedan Rd., Waigaoqiao Free Trade Zone, Shanghai, China	NTD 45,419 (USD 1,500)	Repair and after-sales services
HTC Electronics (Shanghai) Co., Ltd.	2007.01.22	Room 123, No. 2502, Hunan Road, Kangqiao Industrial Zone, Nanhui District, Shanghai, China	NTD 3,055,424 (USD 100,909)	Manufacture and sales of smart handheld devices
HTC Netherlands B.V.	2009.11.11	Orteliuslaan 850, 3528BB Utrecht	NTD 11,219,582 (EUR 286,319)	International holding \ Marketing, repair and after-sales services
HTC EUROPE CO., LTD.	2003.07.09	Salamanca Wellington Street Slough Berkshire England SL1 1YP	NTD 10,949,192 (GBP 234,287)	Marketing, repair and after-sales services
HTC BRASIL	2006.10.25	Rua James Joule, No.92, Suite 82, 7th Floor, Edificio Plaza.1, in the City of Sao Paulo, State of Sao Paulo.	NTD 32,248 (BRL 1,987)	Marketing, repair and after-sales services
HTC Belgium BVBA/SPRL	2006.10.12	Henri van Heurckstraat 15, 2000 Antwerpen	NTD 745 (EUR 19)	Marketing, repair and after-sales services
HTC NIPPON Corporation	2006.03.22	13F, Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo Japan	NTD 3,906 (JPY 10,000)	Marketing, repair and after-sales services
HTC FRANCE CORPORATION	2010.04.02	123 RUE DU CHATEAU 92100 BOULOHNE BILLANCOURT	NTD 254,706 (EUR 6,500)	Marketing, repair and after-sales services
HTC South Eastern Europe Limited Liability Company	2010.04.27	Kifissias 90, Marousi 15125, Athens, Greece	NTD 176 (EUR 4.5)	Marketing, repair and after-sales services
HTC Nordic ApS.	2010.07.01	A.P. Møllers Allé 9B, 2791 Dragør, Denmark	NTD 431 (EUR 11)	Marketing, repair and after-sales services
HTC Italia SRL	2007.02.19	Via Caterina Troiani 75 00144 Rome Italy	NTD 392 (EUR 10)	Marketing, repair and after-sales services
HTC Germany GmbH.	2010.09.06	Solmsstrasse 18, Gebäude E 60486 Frankfurt am Main Germany	NTD 980 (EUR 25)	Marketing, repair and after-sales services
HTC Iberia S.L.	2010.10.08	Avda. de la Industria 4, Natea Business Park, Edif 3. planta 3 D 28108 Alcobendas, Madrid Spain	NTD 118 (EUR 3)	Marketing, repair and after-sales services
HTC Poland sp. z o.o.	2010.09.01	ul. Postępu 21B 02-676 Warszawa Poland	NTD 2,312 (EUR 59)	Marketing, repair and after-sales services
Saffron Media Group Ltd.	2007.05.23	32-38 Saffron Hill, London EC1N 8FH	NTD 76,410 (GBP 1,635)	International holding
HTC Communication Canada, Ltd.	2011.01.25	2900-550 Burrard Street, Vancouver BC V6C 0A3, Canada	NTD 15,140 (USD 500)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investee:				
HTC Norway AS.	2011.08.25	30273678, Orteliuslaan 850, 3528BB, Utrecht	NTD 3,932 (NOK 780)	Marketing, repair and after-sales services
HTC RUS LLC.	2011.06.28	12th Floor, office 1203, BC Pollars, block C, Derbenevskaya nab. 11, Moscow, 115114, Russian Federation	NTD 11 (EUR 0.35)	Marketing, repair and after-sales services
HTC Communication Sweden AB	2011.09.26	C/O Greeting Park Venuu, Engelbrektsgratan 9-11 114 32 STOCKHOLM	NTD 4,375 (SEK 1,000)	Marketing, repair and after-sales services
HTC Luxembourg S.a.r.l.	2011.05.31	9, Parc d'Activites Syrdall, L-5365, Luxembourg	NTD 509 (EUR 13)	Online/download media services
HTC America Holding Inc.	2000.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD 10,858,564 (USD 358,617)	International holding
ABAXIA SAS	2003.02.19	40 rue Madeleine Michelis 92200 Neuilly sur Seine, France	NTD 3,174 (EUR 81)	Design, research and development of application software
HTC America Inc.	2003.01.06	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD 545,022 (USD 18,000)	Sale of smart handheld devices
One & Company Design, Inc.	2003.10.04	2700 18th Street San Francisco, CA, USA, 94110	NTD 1,090 (USD 36)	Design, research and development of application software
HTC America Innovation Inc.	2010.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD 90,837 (USD 3,000)	Design, research and development of application software
HTC America Content Services, Inc.	2011.03.28	13920 SE Eastgate Way, Suite 400, Bellevue, WA 98005	NTD 154,423 (USD 5,100)	Online/download media services
Dashwire, Inc.	2006.08.11	936 N. 34th Street, Suite 200 Seattle, WA 98103	NTD 3 (USD 0.1)	Design, research and development of wireless connectivity software
Beats Electronics, LLC	2008.10.21	1601 Cloverfield Blvd., Suite 5000N, Santa Monica, CA 90404	-	Design, research and development of audio technology
Inquisitive Minds, Inc.	2008.12.04	655 W Evelyn Ave, Suite 3, Mountain View, CA 94041	NTD 0.030 (USD 0.001)	Development and sales of digital education platform
HTC BLR	2006.11.09	203-25 Ulitsa Yanki Kupaly Minsk, 220030, BELARUS	NTD 154 (BYR 42,820)	Design, research and development of application software
Saffron Digital Ltd.	2002.02.11	32-38 Saffron Hill, London EC1N 8FH	NTD 138,613 (GBP 2,966)	Design, research and development of application software
Saffron Digital Inc.	2009.12.04	8820 Wilshire Blvd, Ste 340, Beverley Hills, CA 90211	NTD 23,012 (USD 760)	Design, research and development of application software

(Concluded)

Note: Paid-in capital is translated at the exchange rates prevailing on the balance sheet date.

**(3) Common Shareholders of HTC and its Subsidiaries or its Affiliates with Actual of Deemed Control: None.**

**(4) Industries covered by the Businesses Operated by all Affiliates and Intra-firm Division of Labor:**

**1. Industries covered by the businesses operated by all affiliates**

Principally engaged in design, manufacture and marketing of smart phones and handheld devices, as well as the provision of related technologies and after-sales services.

**2. Division of labor among all affiliates:**

The controlling company, HTC Corporation, is the primary R&D and manufacturing base and provider of technical resources. For its affiliates:

- (1) The primary business of H.T.C. (B.V.I.) Corp., HTC America Holding Inc., HTC Holding Cooperatief U.A. and Saffron Media Group Ltd. is International holding.
- (2) Huada Digital Corporation engages in software service.
- (3) Communication Global Certification Inc. engages in the import of controlled telecommunications radio frequency devices and information software services.
- (4) The primary business of HTC Investment Corporation and HTC I Investment Corporation is general investing activities.
- (5) High Tech Computer Corp. (Suzhou) and HTC Electronics (Shanghai) Co., Ltd. engage in the manufacture and sale of smart handheld devices and electronic components.
- (6) Exedea Inc. engages in distribution and sales.
- (7) HTC Corporation (Shanghai WGQ) engages in repair and after-sales service.
- (8) ABAXIA SAS, HTC BLR, HTC America Innovation Inc., One & Company Design, Inc., Saffron Digital Inc., Saffron Digital Ltd., and HTC Communication Technologies (SH) engage in design, research and development of application software.
- (9) HTC America Inc., HTC Communication Co., Ltd. and HTC RUS LLC. engage in sale of smart handheld devices and electronic components.
- (10) High Tech Computer Asia Pacific Pte. Ltd., HTC HK, Limited, and HTC Netherlands B.V. engage in global investing activities, marketing, distribution and after-sales service.
- (11) Beats Electronics, LLC engages in design, research and development of audio technology.
- (12) HTC America Content Services, Inc. 及 HTC Luxembourg S.a.r.l. engage in online and download media services.
- (13) Dashwire, Inc. engages in design, research and development of wireless connectivity software.
- (14) Inquisitive Minds, Inc. engage in development and sale of digital education platform.
- (15) HTC Investment One (BVI) Corporation is the holding company of S3 Graphics Co, Ltd..
- (16) The primary business of S3 Graphics Co, Ltd. is design, research and development of graphics technology.
- (17) The remaining companies engage in marketing, repair and after-sales services.

**(5) Rosters of Directors, Supervisors, and Presidents of HTC Affiliated Companies**

2011.12.31 Unit: NT\$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
Investor:				
	Chairman	Cher Wang	27,272,427 shares	3.20%
	Director	Wen-Chi Chen	22,391,389 shares	2.63%
	Director	HT Cho	145,530 shares	0.02%
	Director	Tan Ho-Chen	-	-
	Director	David Bruce Yoffie	-	-
HTC Corporation	Independent Director	Chen-Kuo Lin	-	-
	Independent Director	Josef Felder	133,985 shares	0.02%
	Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	43,819,290 shares	5.14%
	Supervisor	Huang-Chieh Chu	-	-
	Supervisor	Caleb Ou-Yang	-	-

(Continued)



Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
Investee:				
H.T.C. (B.V.I.) Corp.	Chairman	HTC Corporation Representative: Cher Wang	778,768,057.80 shares	100.00%
	Chairman	HTC Corporation Representative: Fred Liu	20,000,000 shares	100.00%
Communication Global Certification Inc.	Director	HTC Corporation Representative: Jim Lin \ Simon Hsieh	20,000,000 shares	100.00%
	Supervisor	HTC Corporation Representative: James Chen	20,000,000 shares	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	Director	HTC Corporation Representative: Peter Chou \ Fred Liu \ Lim Tiong Beng	596,034,059 shares	100.00%
	Chairman	HTC Corporation Representative: Peter Chou	30,000,000 shares	100.00%
HTC Investment Corporation	Director	HTC Corporation Representative: Fred Liu \ Winston Yung	30,000,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Edward Wang	30,000,000 shares	100.00%
	Chairman	HTC Corporation Representative: Peter Chou	29,500,000 shares	100.00%
HTC I Investment Corporation	Director	HTC Corporation Representative: Fred Liu \ Winston Yung	29,500,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Edward Wang	29,500,000 shares	100.00%
	Chairman	HTC Corporation Representative: Peter Chou	25,000,000 shares	50.00%
Huada Digital Corporation	Director	HTC Corporation Representative: Fred Liu \ Bill Lee	25,000,000 shares	50.00%
	Supervisor	HTC Corporation Representative: Yvonne Chen	25,000,000 shares	50.00%
HTC Investment One (BVI) Corporation	Director	HTC Corporation Representative: Cher Wang	309,500,000 shares	100.00%
High Tech Computer Corp. (Suzhou)	Chairman	H.T.C. (B.V.I.) Corp. Representative : Fred Liu	USD 20,000 thousands	100.00%
Exedea Inc.	Chairman	H.T.C. (B.V.I.) Corp. Representative : Marian Chao	100 shares	100.00%
High Tech Computer (H.K.) Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative : Peter Chou	2,000,000 shares	100.00%
HTC (Australia and New Zealand) PTY LTD	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative : Jack Tong \ Edward Wang \ Michael Derin	400,000 shares	100.00%
HTC Philippines Corp.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative : Peter Chou \ Fred Liu \ Majorie L. Elic \ Juancho S. Ong \ Edgardo C. Abenis	858,765 shares	100.00%
	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative : Fred Liu	185,625 shares	99.00%
PT. High Tech Computer Indonesia	Director	HTC Corporation Representative: Fred Liu	1,875 shares	1.00%
	Supervisor	High Tech Computer Asia Pacific Pte. Ltd. Representative : Peter Chou	185,625 shares	99.00%
	Supervisor	HTC Corporation Representative : Peter Chou	1,875 shares	1.00%
HTC (Thailand) Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative : Fred Liu	10,000,000 shares	100.00%
	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative : Jack Tong \ Edward Wang	495,000 shares	99.00%
HTC India Private Limited	Director	HTC Holding Cooperatief U.A. Representative : Jack Tong \ Edward Wang	5,000 shares	1.00%
HTC Malaysia Sdn. Bhd.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative : Jack Tong \ Edward Wang \ Yeoh Cheng Lee \ Abd Malik Bin A. Rahman	25,000 shares	100.00%
HTC Innovation Limited	Chairman	High Tech Computer Asia Pacific Pte. Ltd. Representative : Jack Tong	5,000 shares	100.00%
HTC Communication Co., Ltd.	Chairman	High Tech Computer Asia Pacific Pte. Ltd. Representative : Fred Liu	USD 27,500 thousands	100.00%
HTC HK, Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative : Fred Liu \ Abraxas Limited	823,145,430 shares	100.00%

(Continued)

Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
Investee:				
	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative : Winston Yung \ J. J. van Ginkel	11,535,268 thousands	99.00%
HTC Holding Cooperatief U.A.	Director	HTC Corporation Representative : Winston Yung \ J. J. van Ginkel	13 thousands	1.00%
HTC Communication Technologies (SH)	Chairman	High Tech Computer Asia Pacific Pte. Ltd. Representative : David Chen	USD 4,000 thousands	100.00%
S3 Graphics Co, Ltd.	Director	HTC Investment One (BVI) Corporation Representative : Peter Chou \ Fred Liu \ Grace Lei	USD 300,000 thousands	100.00%
HTC Corporation (Shanghai WGQ)公司	Executive Director	HTC HK, Limited Representative : Fred Liu	USD 1,500 thousands	100.00%
HTC Electronics (Shanghai) Co., Ltd.	Chairman	HTC HK, Limited Representative : CS Wang	USD 100,909 thousands	100.00%
HTC Netherlands B.V.	Representative	HTC Holding Cooperatief U.A.	55,110,337 shares	100.00%
HTC EUROPE CO. LTD.	Director	HTC Netherlands B.V. Representative : Peter Chou \ Fred Liu	234,286,633 shares	100.00%
HTC BRASIL	Representative	HTC Netherlands B.V.	1,987,399 shares	100.00%
HTC Belgium BVBA/SPRL	Director	HTC Netherlands B.V. Representative : Fred Liu \ Edward Wang \ Equity Trust Belgium NV	18,549 shares	100.00%
HTC NIPPON Corporation	Director	HTC Netherlands B.V. Representative: David Kuo	1,000 shares	100.00%
HTC France Corporation	President	HTC Netherlands B.V. Representative: Florian Seiche	6,500,000 shares	100.00%
	Administrator	HTC Netherlands B.V. Representative: Florian Seiche	149 shares	99.33%
HTC South Eastern Europe Limited Liability Company	Administrator	HTC Holding Cooperatief U.A. Representative: Florian Seiche	1 shares	0.67%
HTC Nordic ApS	Director	HTC Netherlands B.V. Representative : Florian Seiche \ Edward Wang	80,000 shares	100.00%
HTC Italia SRL	Director	HTC Netherlands B.V. Representative : Florian Seiche	EUR 10 thousands	100.00%
HTC Germany GmbH	Director	HTC Netherlands B.V. Representative : Florian Seiche	25,000 shares	100.00%
HTC Iberia S.L.U.	Director	HTC Netherlands B.V. Representative : Florian Seiche \ Edward Wang	3,006 shares	100.00%
HTC Poland sp z o.o.	Director	HTC Netherlands B.V. Representative : Florian Seiche \ Edward Wang	4,687 shares	100.00%
Saffron Media Group Ltd.	Director	HTC Netherlands B.V. Representative : Winston Yung \ Gen Keong Ng	1,634,870,016 shares	100.00%
HTC Communication Canada, Ltd.	Director	HTC Netherlands B.V. Representative : Jason Makenzie \ Edward Wang	500,000 shares	100.00%
HTC Norway AS.	Director	HTC Netherlands B.V. Representative : Florian Seiche \ Edward Wang	780,000 shares	100.00%
HTC RUS LLC.	Director	HTC Netherlands B.V. Representative : Florian Seiche \ Edward Wang	EUR 0.35 thousands	100.00%
HTC Communication Sweden AB	Director	HTC Netherlands B.V. Representative : Florian Seiche \ Edward Wang	1,000,000 shares	100.00%
HTC Luxembourg S.a.r.l.	Director	HTC Netherlands B.V. Representative : Winston Yung \ John Robson \ Martinus Cornelis \ Johannes Weijermans	12,500 shares	100.00%
HTC America Holding, Inc.	Director	HTC EUROPE CO. LTD Representative : Winston Yung	41,117,151 shares	100.00%
ABAXIA SAS	President	HTC France Corporation Representative : Cedric Mangaud	805,716 shares	100.00%
HTC America, Inc.	Director	HTC America Holding, Inc. Representative : Peter Chou \ Fred Liu	1,000 shares	100.00%

(Continued)



Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
Investee:				
One & Company Design, Inc.	Director	HTC America Holding, Inc. Representative : Edward Wang · Scott Croyle	60,000 shares	100.00%
HTC America Innovation, Inc.	Director	HTC America Holding, Inc. Representative : James Chen · Ronald Allen Louks	1,000 shares	100.00%
HTC America Content Services, Inc.	Director	HTC America Holding, Inc. Representative : Winston Yung	1,000 shares	100.00%
Dashwire, Inc.	Director	HTC America Holding, Inc. Representative : Winston Yun	100 shares	100.00%
Beats Electronics, LLC	Director	HTC America Holding, Inc. Representative : Peter Chou · Matthew Costello · Richard Brennan · Jason Mackenzie	52,059 shares	50.14%
	Director	Jimmy Iovine	-shares	0%
	Director	Paul Wachter	-shares	0%
	Director	Andre Young	15,251 shares	14.69%
Inquisitive Minds, Inc.	Director	HTC America Holding, Inc. Representative : Winston Yung	100 shares	100.00%
HTC BLR	Director	ABAXIA SAS Representative : Ongan Mordeniz	BYR 42,820 thousands	100.00%
Saffron Digital Ltd.	Director	Saffron Media Group Ltd. Representative : Winston Yung · Gen Keong Ng	296,638,744 shares	100.00%
Saffron Digital Inc.	Director	Saffron Media Group Ltd. Representative : Winston Yung · Gen Keong Ng · Phil Chen	76,000 shares	100.00%

(Concluded)

**(6) Operational Highlights of HTC Affiliated Companies**

2011.12.31 Unit: NT\$ thousands, except EPS(NT\$)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
Investor:								
HTC Corporation	8,520,521	246,906,086	145,479,490	101,426,596	455,079,186	64,860,542	61,975,796	73.32
Investee:								
H.T.C. (B.V.I.) Corp.	2,514,732	2,885,514	-	2,885,514	6,295	10,297	10,304	0.01
Communication Global Certification Inc.	200,000	345,835	56,184	289,651	235,834	53,673	47,000	2.35
High Tech Computer Asia Pacific Pte. Ltd.	18,505,787	23,535,912	289,849	23,246,063	3,746,571	2,726,490	2,733,831	8.25
HTC Investment Corporation	300,000	301,526	194	301,332	1,552	1,350	1,121	0.04
HTC I Investment Corporation	295,000	296,052	150	295,902	1,171	984	817	0.03
Huada Digital Corporation	500,000	501,549	170	501,379	2,044	(451)	1,322	0.04
HTC Investment One (BVI) Corporation	9,689,341	9,613,568	-	9,613,568	-	(75,817)	(75,717)	(0.24)
High Tech Computer Corp. (Suzhou)	605,580	697,179	1,528	695,651	9,083	(617)	1,700	-
Exedea Inc.	30	38,749	151	38,598	-	(156)	(665)	(6,650.00)
High Tech Computer (H.K.) Limited	77,941	99,634	-	99,634	340,079	16,194	13,442	6.72
HTC (Australia and New Zealand) PTY LTD.	122,963	316,469	134,979	181,490	707,552	32,872	26,007	65.02

(Continued)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
Investee:								
HTC Philippines Corp.	5,866	6,567	-	6,567	-	-	-	-
PT. High Tech Computer Indonesia	5,608	10,011	4,770	5,241	794	26	(627)	(3.34)
HTC (Thailand) Limited	23,998	150,627	116,062	34,565	239,258	11,260	7,065	0.71
HTC India Private Limited	2,840	254,722	225,824	28,898	487,000	23,539	18,949	37.9
HTC Malaysia Sdn. Bhd.	2,383	109,227	94,261	14,966	232,724	10,827	9,944	397.76
HTC Innovation Limited	1,308	126,795	108,562	18,233	349,876	16,507	10,427	2,085.40
HTC Communication Co., Ltd.	832,673	8,791,743	7,878,039	913,704	21,532,175	(105,717)	(52,180)	-
HTC HK, Limited	3,207,837	6,269,851	375,408	5,894,443	2,072,380	1,665,986	1,667,721	2.06
HTC Holding Cooperatief U.A.	12,448,129	15,323,601	-	15,323,601	1,021,251	1,020,374	1,026,174	-
HTC Communication Technologies (SH)	121,116	158,160	81,468	76,692	60,328	(41,658)	(44,000)	-
S3 Graphics Co, Ltd.	10,683,642	-	-	-	-	-	-	-
HTC Corporation (Shanghai WGQ)公司	45,419	102,785	37,071	65,714	173,218	9,774	4,605	-
HTC Electronics (Shanghai) Co., Ltd.	3,055,424	11,442,006	5,797,418	5,644,588	26,106,916	1,578,540	1,646,081	-
HTC Netherlands B.V.	11,219,582	15,388,497	65,146	15,323,351	1,200,337	1,022,704	1,016,755	18.45
HTC EUROPE CO., LTD.	10,949,192	15,084,464	1,309,044	13,775,420	6,031,262	570,517	1,339,561	17.56
HTC BRASIL	32,248	48,385	19,839	28,546	201,263	8,925	8,240	4.15
HTC Belgium BVBA/SPRL	745	215,507	107,635	107,872	496,071	7,282	7,724	416.39
HTC NIPPON Corporation	3,906	49,333	37,723	11,610	153,019	7,287	4,390	4,390.00
HTC FRANCE CORPORATION	254,706	360,050	315,990	44,060	163,830	(221,766)	(202,899)	(31.22)
HTC South Eastern Europe Limited Liability Company	176	14,522	11,913	2,609	50,335	2,551	1,235	8,233.33
HTC Nordic ApS.	431	71,442	46,356	25,086	285,289	25,091	18,245	228.06
HTC Italia SRL	392	22,247	18,013	4,234	78,940	4,984	529	-
HTC Germany GmbH.	980	85,150	38,313	46,837	264,494	25,660	17,705	708.2
HTC Iberia S.L.	118	34,603	15,862	18,741	89,613	11,483	7,994	2,664.67
HTC Poland sp. z o.o.	2,312	7,772	6,095	1,677	41,360	1,471	(524)	(111.49)
Saffron Media Group Ltd.	76,410	241,351	76,177	165,174	416,550	1,392	8,005	-
HTC Communication Canada, Ltd.	15,140	21,736	6,237	15,499	8,861	422	359	0.72
HTC Norway AS.	3,932	4,775	740	4,035	3,200	152	107	0.14
HTC RUS LLC.	11	312	2,498	(2,186)	-	(3,131)	(2,274)	-
HTC Communication Sweden AB	4,375	5,412	1,001	4,411	1,054	50	36	0.04
HTC Luxembourg S.a.r.l.	509	2,223,225	2,497,690	(274,465)	-	(90,476)	(108,699)	(8,695.92)
HTC America Holding Inc.	10,858,564	13,204,202	315,523	12,888,679	1,074,850	1,071,551	949,012	8.55
ABAXIA SAS	3,174	86,574	41,950	44,624	308,424	23,407	28,004	34.74
HTC America Inc.	545,022	31,947,062	30,085,246	1,861,816	210,373,616	1,352,329	877,371	877,371.00
One & Company Design, Inc.	1,090	148,953	93,583	55,370	275,231	22,329	11,541	192.35
HTC America Innovation Inc.	90,837	894,513	728,736	165,777	1,842,212	120,525	62,159	62,159.00
HTC America Content Services, Inc.	154,423	115,058	18,500	96,558	156,385	(56,135)	(56,929)	(56,929.00)
Dashwire, Inc.	3	23,858	46,181	(22,323)	20,135	(148,065)	(147,814)	(1,478,140.00)

(Continued)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
Investee:								
Beats Electronics, LLC	-	1,863,500	375,263	1,488,237	2,502,456	1,490,099	1,486,961	14,337.68
Inquisitive Minds, Inc.	-	78,042	2,231	75,811	3,065	(43,337)	(43,345)	(433,450.00)
HTC BLR	154	17,394	4,878	12,516	77,224	3,670	10,840	-
Saffron Digital Ltd.	138,613	318,555	155,005	163,550	388,891	61,214	58,658	0.20
Saffron Digital Inc.	23,012	62,452	48,202	14,250	73,205	105,051	(23,215)	(305.46)

Note: Authorized capital and the balance sheet foreign exchange rate is based on the exchange rate on the balance sheet date. The foreign exchange rate for the income statement is based on the weighted average exchange rate for the given period.

### Consolidated Financial Statements of HTC Affiliated Companies

Pursuant to the "Regulations Governing Preparation of Consolidated Business Reports Covering Affiliated Enterprises, Consolidated Financial Statements Covering Affiliated Enterprises, and Reports on Affiliations" and to Letter No. Taiwan-Finance-Securities-04448 of the Securities and Futures Commission, Ministry of Finance, HTC shall prepare the affiliates' consolidated financial statements and issue the declaration of Attachment 1 of that Letter. That declaration has already been issued by HTC and placed on page 1 of the affiliates' financial statement; please refer to it there.

### Affiliates Report

There were no circumstances requiring preparation of an Affiliates Report.

## 2. Private Placement Securities In 2011 And As Of The Date Of This Annual Report:

None.

## 3. Status Of Htc Common Shares And Gdrs Acquired, Disposed Of, And Held By Subsidiaries In 2011 As Of The Date Of This Annual Report:

None.

## 4. Any Events In 2011 As Of The Date Of This Annual Report: That Had Significant Impacts On Shareholders' Right Or Security Prices As Stated In Item 2 Paragraph 2 Of Article 36 Of Securities And Exchange Law Of Taiwan:

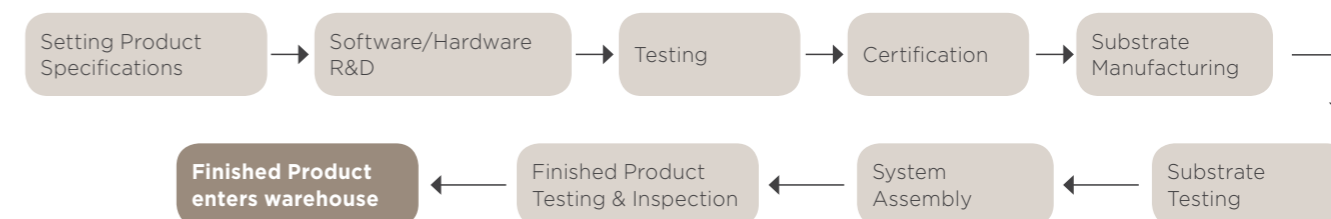
None.

## 5. Other Necessary Supplement:

### (1) Key Functionalities and Manufacturing Processes for Primary Product Lines:

HTC's primary products are converged devices designed on Android and Windows Phone operating systems (OS). HTC products support voice communication, mobile Internet, multimedia, global positioning service (GPS), personal data assistant (PDA), e-mail, instant data search, financial transaction services and other mobile digital services.

The workflow for handheld devices, from R&D through production, is as follows:



### (2) Environmental Protection Expenditures

Primary products manufactured by HTC Corporation are smartphones. With regard to production processes, airborne pollutants are generated only during soldering and solid wastes are generated at various production stages. HTC production processes generate no wastewater.

HTC places a high priority on effectively managing wastes generated by operations and consistently allocates significant funds to install and maintain pollution prevention facilities and retain professional staff. HTC provides offsite training for staff to earn licenses needed to operate installed pollution control equipment. HTC further implements internal training programs and conducts audits to ensure relevant pollution control mechanisms operate properly and effectively in order to continue reducing pollution at HTC. HTC regularly contracts with licensed independent inspectors to review its operational environment. Every audit and inspection of HTC facilities conducted since HTC was founded has confirmed that company operations comply with all relevant government rules and regulations.

HTC is certified under ISO 14001:2004 environmental management, ISO 14064-1:2006 greenhouse gas emission standards and ISO50001:2011energy management standard. Certification-mandated procedures and requirements further reduce HTC pollution emissions and energy consumption and move us forward toward clean production objectives.

#### 1. Losses (including financial compensation) and fines due to pollution incidents from the start of the most recent fiscal year and as of the date of this annual report:

HTC has never been fined or otherwise penalized for pollution by environmental authorities.

#### 2. Future strategies (inclusive of environmental protection facility improvements) and possible expenditures:

- (1) Continue to strengthen operations management in order to comply with government rules / regulations and reduce accidents, errors and other abnormalities;
- (2) Strengthen waste collection and recycling efforts. Encourage resource reuse as part of the effort to achieve waste reduction targets;
- (3) Continue promoting ISO 14001 environmental management, ISO 14064-1 technical and administrative measures and ISO50001:2011energy management standard to maximize clean production benefits.

(4) Major planned environmental expenditures over the next 2 years include:

Unit: NT\$ thousands

Item	Fiscal Year 2012	2013	2014
Anticipated Equipment Purchases / Expenditures	<ol style="list-style-type: none"> <li>1. Energy efficient lighting system</li> <li>2. Water conservation facilities</li> <li>3. Energy efficient aircon equipment</li> <li>4. Inverters for motors and pumps</li> <li>5. Inverters for elevators and air compressors in new building</li> <li>6. Environmentally friendly materials for new building</li> <li>7. System to supply recycled wastewater as landscaping water</li> <li>8. Sewage remediation work (in stream adjacent to campus east gate)</li> <li>9. Headquarter campus greenification</li> </ol>	<ol style="list-style-type: none"> <li>1. Energy efficient lighting system</li> <li>2. Water conservation facilities</li> <li>3. Energy efficient aircon equipment</li> <li>4. Inverters for elevators &amp; air compressors</li> <li>5. System to supply recycled wastewater as landscaping &amp; toilet flush water</li> <li>6. Rainwater collection pond construction</li> <li>7. Water / power conservation promotion activities</li> <li>8. Garbage reduction promotion activities</li> </ol>	<ol style="list-style-type: none"> <li>1. Headquarter campus greenification</li> <li>2. Ecological pool work (in stream adjacent to campus east gate)</li> <li>3. Recycled wastewater system</li> <li>4. System to supply recycled wastewater as landscaping water</li> <li>5. Oil-water separator system construction</li> <li>6. Water / power conservation promotion activities</li> <li>7. Garbage reduction promotion activities</li> </ol>
Anticipated Benefits	<ol style="list-style-type: none"> <li>1. Reduce energy consumption</li> <li>2. Conserve water resources</li> <li>3. Reduce energy consumption</li> <li>4. Reduce energy consumption</li> <li>5. Reduce energy consumption</li> <li>6. Reduce energy consumption</li> <li>7. Promote general waste reduction &amp; recycling to reduce waste volumes and environmental loading</li> <li>8. Greenification</li> <li>9. Reduce energy consumption</li> </ol>	<ol style="list-style-type: none"> <li>1. Reduce energy consumption</li> <li>2. Conserve water resources</li> <li>3. Reduce energy consumption</li> <li>4. Reduce energy consumption</li> <li>5. Promote general waste reduction &amp; recycling to reduce waste volumes and environmental loading</li> <li>6. Reduce energy consumption</li> <li>7. Conserve water resources</li> <li>8. Reduce waste volumes</li> </ol>	<ol style="list-style-type: none"> <li>1. Reduce energy consumption</li> <li>2. Greenification</li> <li>3. Reduce waste volumes and environmental loading</li> <li>4. Reduce waste volumes and environmental loading</li> <li>5. Reduce environmental loading</li> <li>6. Reduce demand on public water supplies and conserve water resources</li> <li>7. Reduce environmental pollution</li> </ol>
Expenditures (estimated)	157,500	110,000	95,000

**3. Environmental Protection and Employee Health & Safety Measures**

**Environmental Protection:**

HTC is committed to operating low-polluting, low-hazard work environments. HTC adheres to all domestic environmental protection regulations. Cardboard boxes, containers and plastic packaging material are collected and separated for recycling. HTC requires suppliers to comply with EU WEEE and RoHS environmental requirements in order to reduce industrial waste, prevent pollution, enhance general quality of life and offer consumers products that reflect HTC's low environmental impact commitment.

Committed to environmental responsibility, HTC monitors its greenhouse gas sources and emissions in compliance with ISO 14064-1 standards. HTC also follows ISO 50001:2011 energy management standards to promote effective energy management, in order to achieve long-run sustainability and competitiveness.

**Associated procedures include:**

- (1) Track greenhouse gas emission to monitor type and amount of energy resources currently being used. Use data to draft action plan for energy conservation;
- (2) Recertification of greenhouse gas records conducted by recognized certification agency at the start of each year (certificate issued);
- (3) Release to the public on a voluntary annual basis relevant data on HTC greenhouse gas emissions through the Taiwan Environmental Protection Administration's National GHG Emissions Registry and relevant international nonprofit organizations.

**Employee Health and Safety (H&S):**

HTC updates its workplace safety and accident prevention plan on an annual basis to reflect current H&S management conditions. This plan represents HTC's primary line of defense against accidents in the workplace. Main thrusts of HTC's H&S measures include ensuring adherence to all mandated H&S regulations, reducing risk through hazard recognition, and effective management of dangerous / hazardous materials. HTC is certified under OHSAS18001:2007. New employees receive health and safety education training to ensure familiarity with safety rules related to HTC's work environment and production processes. HTC also holds regular fire safety drills to familiarize all employees with the use of fire prevention and suppression facilities.

In the realm of health, HTC focuses efforts on the four facets of employee healthcare, health enhancement, health management and employee assistance programs. HTC plans to offer all employees a high quality menu of health service items including regular health checkups, health-enhancement programs / activities, health-related seminars, group management for specific health problems, and psychological counseling. HTC also recognizes the importance to employee wellbeing of rest and relaxation outside of office hours.

The HTC health and safety management handbook and manual of H&S regulations are available on the company intranet for ready reference and review by all employees.

**4. Green Product Research and Development**

Environmental "green" design procedures have been enforced at HTC since 2000. These procedures address the complete product lifecycle - from design and production through consumer use and end-of-life disposal. HTC seeks to identify and exploit opportunities to both minimize the negative environmental impacts and maximize the positive environmental effects of each of its products. Use of lead, cadmium, hexavalent chromium, mercury and other hazardous materials is minimized or eliminated. Designers also work to increase the recoverability of materials at end-of-life and the utilization of recycled materials in products in order to reduce overall environmental impact. HTC develops its green products within the framework of minimal use of toxic materials, frugal use of input resources and maximum materials recyclability. As such, our products meet strict environmental regulations enforced in our markets and satisfy customer expectations and needs. All these enhance HTC's "green competitiveness" and helping realize long-term sustainability for our operations and business.

**(3) Labor Relations Management**

HTC offers employees opportunities to extend and deepen professional skills and knowledge; sharpen proactive and positive attitudes toward professional responsibilities; internalize serious and responsible work values; adopt honest and forthright work habits and pursue excellence in all tasks and responsibilities in order to create an exceptional work environment. We provide our employees with engaging challenges as well as skills / knowledge of value to their career growth. We firmly believe that a positive, energetic work environment fosters professional enthusiasm and innovation.

**1. Talent Acquisition**

Hiring and retaining exceptional employees is a key objective of HTC's human resources strategy. We are an equal opportunity employer and recognize the practical benefits that employee diversity brings to HTC corporate culture and to the reinforcement and extension of innovation. HTC hires all new employees through open selection procedures, with candidates offered positions based on merit. We permit no discrimination based on ethnicity, skin color, social status, language, religion, political affiliation, country / region of origin, gender, sexual orientation, marital status, appearance, disability, professional association membership or other similar considerations not relevant to job performance. HTC works through cooperative programs with universities, internship programs and summer work programs to provide work opportunities to a large number of students each year. We participate actively in job fairs and recruitment events in Taiwan and abroad as part of our ongoing and organized effort to tap the best talent available.

## 2. Employee Development

HTC sponsors a regular schedule of internal seminars and workshops. Globally recognized experts share insights into market trends, the latest technologies and technology trends. Such knowledge, together with HTC's brand value, aesthetics and cultural and artistic sensibilities, help HTC staff evaluate and tailor new technologies to market needs and opportunities. These activities also further enhance staff aesthetic sensibilities, helping HTC staff give each new HTC product an optimal balance between the practical and the emotive. Seminar and workshop programs are critical to HTC staff and organizational growth and important facets of both our competitiveness and commitment to employees.

HTC is committed to our employees growing with us. In addition to aggressively recruiting new talent, we maintain a comprehensive curricula covering professional, managerial and personal development as well as language courses and training for new employees. These programs help staff acclimate quickly to HTC's corporate culture and acquire essential knowledge and skills. We've introduced e-Learning and Mobile Learning platforms to make learning more convenient and flexible. We further offer staff learning roadmap planning, professional study scholarships and subsidies for offsite learning.

### Staff Training Hours & Expenditures during 2011

Category	Total Training Hours	Expenditure (NT\$)	
Technical	82,877	1,422,465	
Managerial	16,890	4,226,093	
Individual Effectiveness	Orientation Training (for New Staff)	26,575	4,745,700
	Effectiveness Enhancement	44,117	6,390,218
TOTAL	170,459	16,784,476	

## 3. Employee Benefits and Employee Satisfaction

HTC's work environment is geared to challenge, stimulate and fulfill our employees. We maintain various outreach initiatives designed to motivate employees, enhance employee benefits and facilitate greater dialogue between the company and its workforce.

### Comprehensive Employee Benefits

HTC provides coverage of its employees under both the National Labor and National Health Insurance programs, provides employees with annual vacation travel allowance, regular physical examinations, regular departmental lunches, cash bonuses for Taiwan's three main annual festivals, cash for weddings / funerals, subsidies for club activities, book store coupons, and access to employee exercise facilities and various exercise classes.

### Open and Responsive Lines of Communication

HTC operates an internal system to receive employee complaints. This system includes a hotline, physical mailbox, and e-mail address dedicated to receiving employee complaints and suggestions as well as a regularly convened joint labor-management committee. HTC regularly canvasses employee opinions. Results are made available to executives and managers and used to measure changes in employee satisfaction and commitment.

### Regular Activities and Events

HTC holds regular sports rallies, family days, athletic competitions and artistic / literary contests to increase opportunities for employees to enjoy informal interactions outside of their regular work.

### Employee Awards

Dedicated to rewarding employee effort and innovation, HTC maintains employee profit sharing mechanisms and rewards individual employees who submit proposals for practical improvements or earn patent awards. HTC also provides cash awards for the best entries in an annual competition designed to solicit quality improvement ideas.

## 4. Employee Retention

**Specialist Retention Plan:** Incentives are offered to employees with special / critical skills to keep them with the company and ensure they benefit from the results of their efforts.

**Long Service Awards:** Awards are presented at a company-wide ceremony that recognize employees with 5 and 10-year long service records.

**Internal Transfer Assistance:** In order to help enhance employees' professional experience / career planning, HTC provides assistance to facilitate employee transfers within the company.

## 5. Compensation and Retirement Benefits

HTC employees earn market-competitive salaries that take into consideration academic background, work experience, seniority and current professional responsibilities / position level. The amount of annual employee performance bonuses is proposed by the president and approved by the board of directors based on current year business performance. Employee profit sharing bonuses are also allocated to employees each year based on motions from the board of directors that are adopted by resolutions at annual shareholders' meetings. Both bonuses are allocated based on work performance and relative level of contribution in order to motivate employees effectively.

HTC's retirement policy has been in place, as required by law, since the company was founded. Starting in November 1999, HTC began to contribute an amount equal to 2 percent of each employee's salary into his / her individual corporate retirement fund. This system was replaced in 2004 when HTC began contributing an amount equal to 8 percent of each employee's salary into a general labor retirement fund managed by a labor retirement fund supervisory board. With the enactment of the new retirement system on 1 July 2005, employees hired under the previous retirement scheme who opted not to switch to the new retirement system were permitted, with supervisory approval, to adjust the current 8 percent contribution downward to 2 percent.

## 6. Employer-Employee Communication and Employee Rights Protection

HTC is committed to fostering an atmosphere of trust in its labor relations and places great importance on internal communications. Labor relations meetings are convened once every two months (at least 6 regular meetings per year), with labor represented by six elected employee representatives. Meeting minutes are kept to ensure follow-on action and track results. HTC further offers employees various channels through which to submit opinions, suggestions and complaints, which may be delivered via a telephone hotline, e-mail address or physical mail as well as made known through HTC's regular employee opinion surveys.

During the most recent fiscal year and as of the printing date of this annual report, labor relations management have been harmonious with no losses resulting from labor-management conflicts; and no loss of this type is expected in the future.



**FINANCIAL  
INFORMATION**

# FINANCIAL INFORMATION

## 1. Abbreviated Balance Sheets And Income Statements For The Past Five Fiscal Years

### (1) Abbreviated Balance Sheets

Unit : NT\$ thousands

Item	Year					As of 2012.3.31
	2011	2010	2009	2008	2007	
Current Assets	180,772,179	156,875,067	101,470,633	101,238,950	83,172,719	156,832,034
Long-term Investments	37,777,785	10,708,420	6,506,194	5,160,891	2,899,109	40,820,220
Properties	15,422,345	10,941,230	8,314,177	7,375,651	3,715,901	16,437,339
Intangible Assets	2,120,948	208,581	-	-	-	1,997,046
Other Assets	10,812,829	5,317,155	3,330,938	1,450,870	656,817	12,134,207
Total Assets	246,906,086	184,050,453	119,621,942	115,226,362	90,444,546	228,220,846
Current Liabilities						
Before Appropriation	145,478,862	109,335,331	53,980,282	54,558,470	34,368,139	126,608,918
After Appropriation	*	139,226,420	74,102,614	74,684,104	55,064,686	*
Long-term Liabilities	-	-	-	-	-	-
Other Liabilities	628	628	1,210	6,406	628	598
Total Liabilities						
Before Appropriation	145,479,490	109,335,959	53,981,492	54,564,876	34,368,767	126,609,516
After Appropriation	*	139,227,048	74,103,824	74,690,510	55,065,314	*
Capital stock	8,520,521	8,176,532	7,889,358	7,553,938	5,731,337	8,520,521
Capital surplus	16,619,594	10,820,744	9,099,923	4,417,534	4,415,845	16,619,594
Retained Earnings						
Before Appropriation	86,616,845	63,150,566	48,637,773	52,036,321	45,920,120	91,084,037
After Appropriation	*	32,855,543	28,128,473	31,537,990	23,400,972	*
Unrealized Loss On Financial Instruments	2,939	(885)	(1,658)	(1,632)	(1,187)	117,091
Cumulative Translation Adjustments	32,134	(579,849)	15,088	65,602	9,664	(664,130)
Net Loss Not Recognized As Pension Cost	(293)	(121)	(34)	-	-	(293)
Treasury Stock	(10,365,144)	(6,852,493)	-	(3,410,277)	-	(14,065,490)
Total Stockholders' Equity						
Before Appropriation	101,426,596	74,714,494	65,640,450	60,661,486	56,075,779	101,611,330
After Appropriation	*	44,823,405	45,518,118	40,535,852	35,379,232	*

\*Subject to change after shareholders' meeting resolution

### (2) Abbreviated Consolidated Balance Sheets

Unit : NT\$ thousands

Item	Year					As of 2012.3.31
	2011	2010	2009	2008	2007	
Current Assets	193,427,606	168,606,486	104,867,841	104,223,660	85,763,011	171,001,721
Long-term Investments	3,685,262	1,232,145	810,485	541,437	501,976	4,178,800
Properties	21,512,478	14,024,329	9,899,808	8,916,350	4,220,962	22,471,729
Intangible Assets	22,560,788	935,650	240,482	289,783	175,206	21,947,552
Other Assets	13,405,992	5,583,134	3,610,401	1,771,180	755,326	14,742,261
Total Assets	254,592,126	190,381,744	119,429,017	115,742,410	91,416,481	234,342,063
Current Liabilities						
Before Appropriation	152,129,860	115,641,103	53,728,775	54,998,933	35,152,925	131,641,134
After Appropriation	*	145,532,192	73,851,107	75,124,567	55,849,472	*
Long-term Liabilities	-	12,188	24,375	46,875	75,625	-
Other Liabilities	42,946	13,959	1,210	6,420	633	43,014
Total Liabilities						
Before Appropriation	152,172,806	115,667,250	53,754,360	55,052,228	35,229,183	131,684,148
After Appropriation	*	145,558,339	73,876,692	75,177,862	55,925,730	*
Capital stock	8,520,521	8,176,532	7,889,358	7,553,938	5,731,337	8,520,521
Capital surplus	16,619,594	10,820,744	9,099,923	4,417,534	4,415,845	16,619,594
Retained Earnings						
Before Appropriation	86,616,845	63,150,566	48,637,773	52,036,321	45,920,120	91,084,037
After Appropriation	*	32,855,543	28,128,473	31,537,990	23,400,972	*
Unrealized Loss On Financial Instruments	2,939	(885)	(1,658)	(1,632)	(1,187)	117,091
Cumulative Translation Adjustments	32,134	(579,849)	15,088	65,602	9,664	(664,130)
Net Loss Not Recognized As Pension Cost	(293)	(121)	(34)	-	-	(293)
Treasury Stock	(10,365,144)	(6,852,493)	-	(3,410,277)	-	(14,065,490)
Equity Attribute To The Stockholders Of The Parent	101,426,596	74,714,494	65,640,450	60,661,486	56,075,779	101,611,330
Minority Interest	992,724	-	34,207	28,696	111,519	1,046,585
Total Stockholders' Equity						
Before Appropriation	102,419,320	74,714,494	65,674,657	60,690,182	56,187,298	102,657,915
After Appropriation	*	44,823,405	45,552,325	40,564,548	35,490,751	*

\*Subject to change after shareholders' meeting resolution

### (3) Abbreviated Income Statements

NT\$ thousands (Except EPS:NT\$)

Item	Year					
	2011	2010	2009	2008	2007(Note 2)	2012 1Q
Revenues	455,079,186	275,046,954	144,880,715	152,558,766	118,579,958	64,957,334
Gross Profit (Note 1)	119,754,046	79,556,972	45,862,483	50,641,854	40,177,500	13,867,283
Operating Income (Note 1)	64,860,542	42,295,343	24,174,994	30,256,385	30,535,537	4,312,756
Non-operating Income and Gains (Note 1)	5,060,293	2,536,080	1,623,362	2,300,018	1,810,908	825,010
Non-operating Expenses and Losses (Note 1)	71,164	340,114	585,892	965,924	195,148	239,949
Income from Continuing Operations before Income Tax	69,849,671	44,491,309	25,212,464	31,590,479	32,151,297	4,897,817
Income from Continuing Operations	61,975,796	39,533,600	22,608,902	28,635,349	28,938,862	4,467,192
Income (Loss) from Discontinued Operations	-	-	-	-	-	-
Income (Loss) from Extraordinary Items	-	-	-	-	-	-
Cumulative Effect of Changes in Accounting Principle	-	-	-	-	-	-
Net Income	61,975,796	39,533,600	22,608,902	28,635,349	28,938,862	4,467,192
Basic Earnings Per Share	73.32	46.18	26.04	32.80	33.09	5.35

Note 1: In accordance with 2008 and 2011 financial reporting requirements, write-downs of inventories or reversal of write-downs and product warranty costs registered in 2007 have been reclassified as cost of revenues items.

Note 2: Excluded employee bonus expenses



#### (4) Abbreviated Consolidated Income Statements

NT\$ thousands (Except EPS:NT\$)

Item	Year					2012 1Q
	2011	2010	2009	2008	2007 (Note 2)	
Revenues	465,794,773	278,761,244	144,492,518	152,353,176	118,217,545	67,789,581
Gross Profit (Note 1)	131,797,527	83,868,739	46,162,981	50,990,638	44,164,632	16,970,175
Operating Income (Note 1)	68,787,767	44,132,581	24,622,907	30,345,270	30,660,255	5,104,543
Non-operating Income and Gains (Note 1)	2,783,264	1,142,944	1,420,086	2,319,489	1,771,846	703,821
Non-operating Expenses and Losses (Note 1)	147,344	311,137	646,581	929,043	200,165	252,033
Income from Continuing Operations before Income Tax	71,423,687	44,964,388	25,396,412	31,735,716	32,231,936	5,556,331
Income from Continuing Operations	62,299,048	39,514,844	22,614,413	28,552,526	28,917,712	4,804,974
Income (Loss) from Discontinued Operations	-	-	-	-	-	-
Income (Loss) from Extraordinary Items	-	-	-	-	-	-
Cumulative Effect of Changes in Accounting Principle	-	-	-	-	-	-
Net Income	62,299,048	39,514,844	22,614,413	28,552,526	28,917,712	4,804,974
Net Income Attribute to Shareholders of the Parent	61,975,796	39,533,600	22,608,902	28,635,349	28,938,862	4,467,192
Basic Earnings Per Share	73.32	46.18	26.04	32.80	33.09	5.35

Note 1: In accordance with 2008 and 2011 financial reporting requirements, write-downs of inventories or reversal of write-downs and product warranty costs registered in 2007 have been reclassified as cost of revenues items.

Note 2: Excluded employee bonus expenses

#### (5) The Name of the Certified Public Accountant and the Auditor's Opinion

Year	CPA Firm	Certified Public Accountant	Auditor's Opinion
2007	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Kwan-Chung Lai	Unqualified Opinion
2008	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Kwan-Chung Lai	Modified Unqualified Opinion
2009	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2010	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2011	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion

## 2. Financial Analysis

### (1) Financial Analysis (Unconsolidated)

Item (Note 2-3)	Year					As of 2012.3.31	
	2011	2010	2009	2008 (Note 1)	2007 (Note 1)		
Capital Structure Analysis	Debt Ratio (%)	59	59	45	47	38	55
	Long-term Fund to Fixed Assets Ratio (%)	658	683	790	822	1,509	618
Liquidity Analysis	Current Ratio (%)	124	144	188	186	242	124
	Quick Ratio (%)	101	120	171	169	218	98
Operating Performance Analysis	Debt Services Coverage Ratio (Times)	6.806	967,203	192,463	136,167	133,409	15,307
	Average Collection Turnover (Times)	6.95	5.92	4.92	6.09	6.01	4.34
	Days Sales Outstanding	53	62	74	60	61	84
	Average Inventory Turnover (Times)	12.11	11.77	11.71	12.68	12.14	6.79
	Average Payment Turnover (Times)	4.89	4.59	3.72	4.08	4.03	2.79
	Average Inventory Turnover Days	30	31	31	29	30	54
	Fixed Assets Turnover (Times)	29.51	25.14	17.43	20.68	31.91	15.81
	Total Assets Turnover (Times)	1.84	1.49	1.21	1.32	1.31	1.14
	Return on Total Assets (%)	29	26	22	28	37	8
	Return on Equity (%)	70	56	37	49	59	18
Profitability Analysis	Operating Income to Paid-in Capital Ratio (%)	761	517	306	401	533	51
	Pre-tax Income to Paid-in Capital Ratio (%)	820	544	320	418	561	57
	Net Margin (%)	14	14	16	19	24	7
	Basic Earnings Per Share (NT\$)	73.32	46.18	26.04	32.80	33.09	5.35
Cash Flow	Cash Flow Ratio (%)	59	37	51	69	116	1
	Cash Flow Adequacy Ratio (%)	163	157	201	221	291	149
	Cash Flow Reinvestment Ratio (%)	52	26	11	28	47	1
Leverage	Operating Leverage	1.35	1.43	1.54	1.44	1.2	2.12
	Financial Leverage	1	1	1	1	1	1

Various performance indicators remained healthy reflected the growth of HTC's business in 2011.

#### 1. Capital Structure & Liquidity Analyses

As of year-end 2011, our debt ratio stood at 59% as last year level and current and quick ratios were both lower at 124% and 101%, respectively. This situation reflected increases in current liabilities due to rapid business growth that saw notes and accounts payable rise 26% to NT\$71.6 billion, accrued marketing expense rise 62% to NT\$25.5 billion, and product warranty liabilities grow 41% to NT\$12.7 billion.

HTC carries no external loans and equity funds currently cover all expenditure needs. The relatively small interest expense entered into the income statement primarily reflects interests on tax payments, caused a lower debt services coverage ratio compared to 2010.

#### 2. Operating Performance Analysis

Fixed asset turnover, total asset turnover, and average collection turnover were all higher due to strong revenue growth. Days sales outstanding fell from 62 days in 2010 to 53 days in 2011. Average payment turnover increased to 4.89 due to the 72% rise in cost of revenue for the year.

#### 3. Profitability Analysis

Consumers are increasingly recognizing the value of HTC's innovation and the HTC brand. The market success of many flagship products launched in 2011 helped grow revenues by 65% and net income by 57% to new historic highs. Earnings per share (EPS) rose to NT\$73.32. Operating income and pre-tax income to paid-in capital ratios rose by 761% and 820%, respectively. Return on equity (ROE) rose to 70% from 56% in 2010.

#### 4. Cash Flow Analysis

Reflecting strong business growth, net cash flows from operating activities grew 110% over 2010 levels to NT\$85.7 billion. 2011 cash flow ratio grew to 59%, cash flow adequacy ratio rose to 163% and cash flow reinvestment ratio rose to 52%.

## (2) Financial Analysis (Consolidated)

Item (Note 2-3)		Year					As of 2012.3.31
		2011	2010	2009	2008	2007 (Note 1)	
Capital Structure Analysis	Debt Ratio (%)	60	61	45	48	39	56
	Long-term Fund to Fixed Assets Ratio (%)	476	533	664	681	1,333	457
Liquidity Analysis	Current Ratio (%)	127	146	195	190	244	130
	Quick Ratio (%)	102	120	176	171	217	102
Operating Performance Analysis	Debt Services Coverage Ratio (Times)	2,307	12,624	11,683	3,041	26,595	17,365
	Average Collection Turnover (Times)	7.23	6.14	6.03	6.12	6.06	4.49
	Days Sales Outstanding	50	59	61	60	60	81
	Average Inventory Turnover (Times)	10.55	10.06	11.46	10.95	9.68	6.10
	Average Payment Turnover (Times)	4.66	4.35	4.03	3.92	3.66	2.73
	Average Inventory Turnover Days	35	36	32	33	38	60
	Fixed Assets Turnover (Times)	21.65	19.88	14.6	17.09	28.01	12.07
Profitability Analysis	Total Assets Turnover (Times)	1.83	1.46	1.21	1.32	1.29	1.16
	Return on Total Assets (%)	28	26	21	28	37	8
	Return on Equity (%)	70	56	37	49	58	19
	Operating Income to Paid-in Capital Ratio (%)	807	540	312	402	535	60
	Pre-tax Income to Paid-in Capital Ratio (%)	838	550	322	420	562	65
Cash Flow	Net Margin (%)	13	14	16	19	24	7
	Basic Earnings Per Share (NT\$)	73.32	46.18	26.04	32.80	33.09	5.35
	Cash Flow Ratio (%)	58	40	52	68	113	(1)
Leverage	Cash Flow Adequacy Ratio (%)	158	150	192	211	273	143
	Cash Flow Reinvestment Ratio (%)	53	32	11	28	47	(1)
Leverage	Operating Leverage	1.35	1.43	1.54	1.44	1.2	2.12
	Financial Leverage	1	1	1	1	1	1

Various performance indicators remained healthy reflected the growth of HTC's business in 2011.

### 1. Capital Structure & Liquidity Analyses

As of year-end 2011, our debt ratio stood at 60% as the same as 2010 level, current and quick ratios were both lower at 127% and 102%, respectively. This situation reflected increases in current liabilities due to rapid business growth that saw notes and accounts payable rise 25% to NT\$77.2 billion, accrued marketing expense rise 68% to NT\$29.1 billion, and product warranty liabilities grow 44% to NT\$13.1 billion.

HTC carries no external loans and equity funds currently cover all expenditure needs. The relatively small interest expense entered into the income statement primarily reflects interests on tax payments, caused a lower debt services coverage ratio compared to 2010.

### 2. Operating Performance Analysis

Fixed asset turnover and total asset turnover were all higher due to strong revenue growth. Days sales outstanding fell to 50 days in 2011. Average inventory turnover days kept at 35 days at 2011 year-end.

### 3. Profitability Analysis

Consumers are increasingly recognizing the value of HTC's innovation and the HTC brand. The market success of many flagship products launched in 2011 helped grow revenues by 67% and net income by 58% to new historic highs. Earnings per share (EPS) rose to NT\$73.32. Operating income and pre-tax income to paid-in capital ratios rose by 807% and 838%, respectively. Return on total asset (ROA) and Return on equity (ROE) rose to 28% and 70% from 26% and 56% in 2010, respectively.

### 4. Cash Flow Analysis

Reflecting strong business growth, net cash flows from operating activities grew 92% over 2010 levels to NT\$88.5 billion. 2011 cash flow ratio grew to 58%, cash flow adequacy ratio rose to 158% and cash flow reinvestment ratio rose to 53%.

Note 1: Excluded employee bonus expenses

Note 2: In accordance with financial reporting requirements since 2008, write-downs of inventories or reversal of write-downs and product warranty costs registered during the period 2007 have been reclassified as cost of revenues items.

Note 3: Glossary

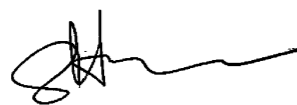
- a. Capital Structure Analysis
  - (1) Debt Ratio=Total Liabilities / Total Assets.
  - (2) Long-term Fund to Fixed Assets Ratio=(Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets.
- b. Liquidity Analysis
  - (1) Current Ratio=Current Assets / Current Liabilities.
  - (2) Quick Ratio=(Current Assets - Inventories - Prepaid Expenses - Deferred income tax assets-current) / Current Liabilities.
  - (3) Times Interest Earned=Earnings before Interest and Taxes / Interest Expenses.
- c. Operating Performance Analysis
  - (1) Average Collection Turnover= Net Sales / Average Trade Receivables.
  - (2) Days Sales Outstanding=365 / Average Collection Turnover.
  - (3) Average Inventory Turnover=Cost of Sales / Average Inventory.
  - (4) Average Payment Turnover=Cost of Sales / Average Trade Payables.
  - (5) Average Inventory Turnover Days=365 / Average Inventory Turnover.
  - (6) Fixed Assets Turnover=Net Sales / Net Fixed Assets.
  - (7) Total Assets Turnover=Net Sales / Total Assets.
- d. Profitability Analysis
  - (1) Return on Total Assets=(Net Income + Interest Expenses \* (1 - Effective Tax Rate)) / Average Total Assets.
  - (2) Return on Equity=Net Income / Average Shareholders' Equity.
  - (3) Net Margin=Net Income / Net Sales.
  - (4) Earnings Per Share=(Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding.
- e. Cash Flow
  - (1) Cash Flow Ratio=Net Cash Provided by Operating Activities / Current Liabilities.
  - (2) Cash Flow Adequacy Ratio=Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend.
  - (3) Cash Flow Reinvestment Ratio=(Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Investments + Other Assets + Working Capital).
- f. Leverage
  - (1) Operating Leverage=(Net Sales - Variable Cost) / Income from Operations.
  - (2) Financial Leverage=Income from Operations / (Income from Operations - Interest Expenses)

### 3. 2011 Supervisor's Report

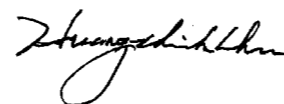
#### HTC CORPORATION SUPERVISORS AUDIT REPORT

The Board of Directors has prepared the Company's 2011 Business Report, Financial Statements and Earnings Distribution Proposal. HTC Corporation's Financial Statements have been audited and certified by Yang, Ming-Hsien, CPA, and Wang Tze-Chun, CPA, of Deloitte & Touche and an audit report relating to the Financial Statements has been issued. The Business Report, Financial Statements and Earnings Distribution Proposal have been reviewed and considered to be complied with relevant rules by the undersigned, the supervisor of HTC Corporation. According to Article 219 of the Company Law, I hereby submit this report.

HTC CORPORATION  
SUPERVISOR  
Way-Chih Investment Co., Ltd.  
Representative: Shao-Lun Lee  
April 24, 2012



SUPERVISOR  
Huang-Chieh Chu



### 4. Independent Auditors' Report

#### The Board of Directors and Stockholders

#### HTC Corporation

We have audited the accompanying balance sheets of HTC Corporation (the "Company") as of December 31, 2010 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HTC Corporation as of December 31, 2010 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of HTC Corporation and subsidiaries as of and for the years ended December 31, 2010 and 2011, and expressed an unqualified opinion on those statements in our report dated February 14, 2012.

Our audits also comprehended the translation of the 2011 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.

#### Notice to Readers

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

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

## BALANCE SHEETS

DECEMBER 31, 2010 AND 2011

(In Thousands, Except Par Value)

ASSETS	2010		2011
	NT\$	NT\$	US\$ (Note 3)
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (Notes 2 and 5)	\$66,282,076	\$78,872,320	\$2,604,852
Financial assets at fair value through profit or loss (Notes 2, 6 and 24)	450,276	256,868	8,483
Available-for-sale financial assets - current (Notes 2 and 7)	441,948	736,031	24,308
Notes receivable, net (Notes 2 and 8)	-	755,450	24,950
Accounts receivable, net (Notes 2 and 8)	35,179,038	31,284,326	1,033,202
Accounts receivable from related parties, net (Notes 2 and 25)	28,186,391	32,977,269	1,089,114
Other current financial assets (Notes 9 and 25)	717,636	1,383,927	45,706
Inventories (Notes 2 and 10)	21,920,492	25,389,320	838,513
Prepayments (Notes 11 and 25)	2,314,577	7,041,087	232,540
Deferred income tax assets (Notes 2 and 22)	925,579	1,517,302	50,111
Other current assets	457,054	558,279	18,438
<b>Total current assets</b>	<b>156,875,067</b>	<b>180,772,179</b>	<b>5,970,217</b>
<b>LONG-TERM INVESTMENTS</b>			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	538	279	9
Held-to-maturity financial assets - noncurrent (Notes 2 and 12)	207,946	204,597	6,757
Financial assets carried at cost - noncurrent (Notes 2 and 13)	515,861	515,861	17,037
Investments accounted for by the equity method (Notes 2 and 14)	9,900,410	36,477,563	1,204,715
Prepayments for long-term investments (Notes 2 and 14)	83,665	579,485	19,138
<b>Total long-term investments</b>	<b>10,708,420</b>	<b>37,777,785</b>	<b>1,247,656</b>
<b>PROPERTIES (Notes 2, 15 and 25)</b>			
Cost			
Land	5,690,718	7,462,281	246,451
Buildings and structures	3,504,669	3,680,608	121,557
Machinery and equipment	5,564,902	7,100,072	234,488
Molding equipment	172,632	172,632	5,701
Computer equipment	343,939	398,289	13,154
Transportation equipment	6,242	6,570	217
Furniture and fixtures	147,349	204,185	6,743
Leased assets	4,712	4,712	156
Leasehold improvements	151,716	215,437	7,115
<b>Total cost</b>	<b>15,586,879</b>	<b>19,244,786</b>	<b>635,582</b>
Less: Accumulated depreciation	(4,934,160)	(5,850,061)	(193,205)
Prepayments for construction-in-progress and equipment-in-transit	288,511	2,027,620	66,964
<b>Properties, net</b>	<b>10,941,230</b>	<b>15,422,345</b>	<b>509,341</b>
<b>INTANGIBLE ASSETS (Note 2)</b>			
Patents	208,581	2,120,948	70,047
<b>OTHER ASSETS</b>			
Assets leased to others	50,828	-	-
Refundable deposits	79,197	78,894	2,606
Deferred charges (Note 2)	27,658	120,593	3,983
Deferred income tax assets (Notes 2 and 22)	2,419,431	3,596,520	118,779
Restricted assets (Note 26)	63,900	63,900	2,110
Other (Notes 2, 11 and 18)	2,676,141	6,952,922	229,628
<b>Total other assets</b>	<b>5,317,155</b>	<b>10,812,829</b>	<b>357,106</b>
<b>TOTAL</b>	<b>\$184,050,453</b>	<b>\$246,906,086</b>	<b>\$8,154,367</b>

LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2011
	NT\$	NT\$	US\$ (Note 3)
<b>CURRENT LIABILITIES</b>			
Notes and accounts payable	\$56,478,777	\$71,650,537	\$2,366,344
Accounts payable to related parties (Note 25)	1,346,981	3,639,231	120,190
Income tax payable (Notes 2 and 22)	6,416,667	9,653,090	318,805
Accrued expenses (Notes 16 and 25)	31,663,629	42,364,231	1,399,129
Payable for purchase of equipment	318,587	348,772	11,519
Other current liabilities (Notes 2, 17 and 25)	13,110,690	17,823,001	588,626
<b>Total current liabilities</b>	<b>109,335,331</b>	<b>145,478,862</b>	<b>4,804,613</b>
<b>OTHER LIABILITIES</b>			
Guarantee deposits received	628	628	20
<b>Total liabilities</b>	<b>109,335,959</b>	<b>145,479,490</b>	<b>4,804,633</b>
<b>STOCKHOLDERS' EQUITY (Note 19)</b>			
Capital stock - NT\$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 817,653 thousand shares in 2010 and 852,052 thousand shares in 2011			
Common stock	8,176,532	8,520,521	281,400
Capital surplus			
Additional paid-in capital - issuance of shares in excess of par	10,777,623	14,809,608	489,105
Treasury stock transactions	-	1,730,458	57,150
Long-term equity investments	18,411	18,037	596
Merger	24,710	24,423	807
Expired stock options	-	37,068	1,224
Retained earnings			
Legal reserve	10,273,674	10,273,674	339,300
Special reserve	-	580,856	19,184
Accumulated earnings	52,876,892	75,762,315	2,502,141
Other equity			
Cumulative translation adjustments (Note 2)	(579,849)	32,134	1,061
Net loss not recognized as pension cost	(121)	(293)	(10)
Unrealized valuation (loss) gain on financial instruments (Notes 2 and 24)	(885)	2,939	97
Treasury stock (Note 20)	(6,852,493)	(10,365,144)	(342,321)
<b>Total stockholders' equity</b>	<b>74,714,494</b>	<b>101,426,596</b>	<b>3,349,734</b>
<b>TOTAL</b>	<b>\$184,050,453</b>	<b>\$246,906,086</b>	<b>\$8,154,367</b>

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

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2011

(In Thousands, Except Earnings Per Share)

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$275,046,954	\$455,079,186	\$15,029,532
COST OF REVENUES (Notes 2, 10, 21 and 25)	195,489,982	335,325,140	11,074,512
GROSS PROFIT	79,556,972	119,754,046	3,955,020
UNREALIZED INTERCOMPANY GAINS	(345,455)	(1,151,531)	(38,031)
REALIZED INTERCOMPANY GAINS	108,150	345,455	11,409
REALIZED GROSS PROFIT	79,319,667	118,947,970	3,928,398
OPERATING EXPENSES (Notes 21 and 25)			
Selling and marketing	19,516,895	31,971,943	1,055,911
General and administrative	4,812,579	5,860,841	193,561
Research and development	12,694,850	16,254,644	536,829
Total operating expenses	37,024,324	54,087,428	1,786,301
OPERATING INCOME	42,295,343	64,860,542	2,142,097
NONOPERATING INCOME AND GAINS			
Interest income	286,610	622,365	20,555
Gains on equity-method investments (Notes 2 and 14)	1,457,395	2,718,362	89,777
Gains on sale of investments, net	3,001	29	1
Exchange gain (Note 2)	-	1,212,432	40,042
Rental revenues (Note 25)	366	920	30
Valuation gains on financial instruments, net (Notes 2 and 6)	450,276	256,868	8,483
Other (Note 25)	338,432	249,317	8,234
Total nonoperating income and gains	2,536,080	5,060,293	167,122
NONOPERATING EXPENSES AND LOSSES			
Interest expense	46	10,265	339
Loss on disposal of properties	139	-	-
Exchange loss (Note 2)	303,549	-	-
Impairment loss (Notes 2 and 13)	1,192	-	-
Other	35,188	60,899	2,012
Total nonoperating expenses and losses	340,114	71,164	2,351
INCOME BEFORE INCOME TAX	\$44,491,309	\$69,849,671	\$2,306,868
INCOME TAX (Notes 2 and 22)	(4,957,709)	(7,873,875)	(260,044)
NET INCOME	\$39,533,600	\$61,975,796	\$2,046,824

(In Thousands, Except Earnings Per Share)

	2010		2011	
	Before Income Tax	After Income Tax	Before Income Tax	
	NT\$	NT\$	NT\$	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 23)	\$51.98	\$46.18	\$82.63	\$2.73
			\$73.32	\$2.42
DILUTED EARNINGS PER SHARE (Note 23)	\$51.36	\$45.64	\$81.05	\$2.68
			\$71.91	\$2.37

(Concluded)

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

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2010 AND 2011

(In Thousands of New Taiwan Dollars)

	Capital Stock		Treasury Stock Transactions	Long-term Equity Investments	Merger	Capital Surplus		Retained Earnings			Other Equity		Total	
	Issued and Outstanding Common Stock	Issuance of Shares in Excess of Par				Expired Stock Options	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Gain (Loss) on Financial Instruments		Treasury Stock
BALANCE, JANUARY 1, 2010	\$7,889,358	\$9,056,323	\$-	\$18,411	\$25,189	\$-	\$10,273,674	\$-	\$38,364,099	\$15,088	\$(34)	\$(1,658)	\$-	\$65,640,450
Appropriation of the 2009 net earnings														
Stock dividends	386,968	-	-	-	-	-	-	-	(386,968)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(20,122,332)	-	-	-	-	(20,122,332)
Transfer of employee bonuses to common stock	50,206	1,893,488	-	-	-	-	-	-	-	-	-	-	-	1,943,694
Net income in 2010	-	-	-	-	-	-	-	-	39,533,600	-	-	-	-	39,533,600
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(594,937)	-	-	-	(594,937)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	773	-	773
Adjustment due to the movement of investees' other equity under the equity method	-	-	-	-	-	-	-	-	-	-	(87)	-	-	(87)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(11,686,667)	(11,686,667)
Retirement of treasury stock	(150,000)	(172,188)	-	-	(479)	-	-	-	(4,511,507)	-	-	-	4,834,174	-
BALANCE, DECEMBER 31, 2010	8,176,532	10,777,623	-	18,411	24,710	-	10,273,674	-	52,876,892	(579,849)	(121)	(885)	(6,852,493)	74,714,494
Appropriation of the 2010 net earnings														
Special reserve	-	-	-	-	-	-	-	580,856	(580,856)	-	-	-	-	-
Stock dividends	403,934	-	-	-	-	-	-	-	(403,934)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(29,891,089)	-	-	-	-	(29,891,089)
Transfer of employee bonuses to common stock	40,055	4,205,796	-	-	-	-	-	-	-	-	-	-	-	4,245,851
Net income in 2011	-	-	-	-	-	-	-	-	61,975,796	-	-	-	-	61,975,796
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	3,824	-	3,824
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	611,983	-	-	-	611,983
Adjustment due to the movement of investees' other equity under the equity method	-	-	-	-	-	-	-	-	-	-	(172)	-	-	(172)
Adjustment due to changes in ownership percentage in investees and the movement of investees' other equity under the equity method	-	-	-	(374)	-	-	-	-	-	-	-	-	-	(374)
Transfer of treasury stock to employees	-	-	1,750,767	-	-	37,503	-	-	-	-	-	-	4,113,821	5,902,091
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(16,135,808)	(16,135,808)
Retirement of treasury stock	(100,000)	(173,811)	(20,309)	-	(287)	(435)	-	-	(8,214,494)	-	-	-	8,509,336	-
BALANCE, DECEMBER 31, 2011	\$8,520,521	\$14,809,608	\$1,730,458	\$18,037	\$24,423	\$37,068	\$10,273,674	\$580,856	\$75,762,315	\$32,134	\$(293)	\$2,939	\$(10,365,144)	\$101,426,596
BALANCE, JANUARY 1, 2011	\$270,040	\$355,944	\$-	\$608	\$816	\$-	\$339,300	\$-	\$1,746,323	\$(19,150)	\$(4)	\$(29)	\$(226,312)	\$2,467,536
Appropriation of the 2010 net earnings														
Special reserve	-	-	-	-	-	-	-	19,184	(19,184)	-	-	-	-	-
Stock dividends	13,340	-	-	-	-	-	-	-	(13,340)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(987,189)	-	-	-	-	(987,189)
Transfer of employee bonuses to common stock	1,323	138,901	-	-	-	-	-	-	-	-	-	-	-	140,224
Net income in 2011	-	-	-	-	-	-	-	-	2,046,824	-	-	-	-	2,046,824
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	126	-	126
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	20,211	-	-	-	20,211
Adjustment due to the movement of investees' other equity under the equity method	-	-	-	-	-	-	-	-	-	-	(6)	-	-	(6)
Adjustment due to changes in ownership percentage of investees' other equity under the equity method	-	-	-	(12)	-	-	-	-	-	-	-	-	-	(12)
Transfer of treasury stock to employees	-	-	57,821	-	-	1,239	-	-	-	-	-	-	135,864	194,924
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(532,904)	(532,904)
Retirement of treasury stock	(3,303)	(5,740)	(671)	-	(9)	(15)	-	-	(271,293)	-	-	-	281,031	-
BALANCE, DECEMBER 31, 2011	\$281,400	\$489,105	\$57,150	\$596	\$807	\$1,224	\$339,300	\$19,184	\$2,502,141	\$1,061	\$(10)	\$97	\$(342,321)	\$3,349,734

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



## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2011

(In Thousands)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$39,533,600	\$61,975,796	\$2,046,824
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	622,438	928,774	30,674
Amortization	58,621	397,022	13,112
Compensation cost recognized for the transfer of treasury stock to employees	-	1,788,270	59,060
Distribution of bonuses to employees of subsidiaries	(157,007)	(599,510)	(19,800)
Amortization of premium on financial assets	385	3,349	111
Prepaid pension costs	(21,293)	(24,882)	(822)
Gains on equity-method investments	(1,457,395)	(2,718,362)	(89,777)
Cash dividends received from equity-method investees	480	1,786	59
Loss on disposal of properties, net	139	-	-
Transfer of properties to expenses	532	59	2
Gains on sale of investments, net	(3,001)	(29)	(1)
Impairment loss on financial assets carried at cost	1,192	-	-
Deferred income tax assets	(1,467,669)	(1,768,812)	(58,417)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(432,144)	193,408	6,388
Notes receivable	-	(755,450)	(24,950)
Accounts receivable	(9,852,810)	3,894,712	128,628
Accounts receivable from related parties	(25,941,841)	(4,790,878)	(158,224)
Inventories	(16,703,299)	(3,468,828)	(114,562)
Prepayments	1,003,874	(4,726,510)	(156,099)
Other current assets	(330,274)	(101,225)	(3,343)
Other current financial assets	(483,435)	(666,291)	(22,005)
Other assets - other	(640,985)	(4,251,899)	(140,424)
Notes and accounts payable	31,929,341	15,171,760	501,065
Accounts payable to related parties	1,261,305	2,292,250	75,704
Income tax payable	2,264,043	3,236,423	106,887
Accrued expenses	16,479,349	14,946,453	493,624
Other current liabilities	5,171,658	4,753,191	156,980
Net cash provided by operating activities	40,835,804	85,710,577	2,830,694
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of available-for-sale financial assets	(3,551,180)	(490,000)	(16,183)
Proceeds of the sale of available-for-sale financial assets	5,610,175	200,029	6,606
Purchase of held-to-maturity financial assets	(208,331)	-	-
Increase in investments accounted for by the equity method	(3,031,907)	(23,186,330)	(765,756)
Purchase of properties and assets leased to others	(3,004,250)	(5,328,935)	(175,994)
(Increase) decrease in refundable deposits	(10,031)	303	10
Increase in deferred charges	(4,144)	(122,413)	(4,043)
Increase in intangible assets	(220,943)	(2,279,911)	(75,297)
Net cash used in investing activities	(4,420,611)	(31,207,257)	(1,030,657)

(Continued)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in guarantee deposits received	\$(582)	\$-	\$-
Cash dividends	(20,122,332)	(29,891,089)	(987,189)
Purchase of treasury stock	(11,686,667)	(16,135,808)	(532,904)
Transfer treasury stock to employees	-	4,113,821	135,864
Net cash used in financing activities	(31,809,581)	(41,913,076)	(1,384,229)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,605,612	12,590,244	415,808
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	61,676,464	66,282,076	2,189,044
CASH AND CASH EQUIVALENTS, END OF YEAR	\$66,282,076	\$78,872,320	\$2,604,852
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid during the year			
Interest (net of amounts capitalized)	\$46	\$10,265	\$339
Income tax	\$4,161,335	\$6,406,264	\$211,574
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Transfer of retained earnings to common stock	\$386,968	\$403,934	\$13,340
Transfer of assets leased to others to properties	\$47,813	\$50,828	\$1,679
Retirement of treasury stock	\$4,834,174	\$8,509,336	\$281,031
Transfer of stock bonuses to employees to common stock and additional paid-in capital	\$1,943,694	\$4,245,851	\$140,224
<b>INCREASE IN LONG-TERM INVESTMENTS - EQUITY METHOD</b>			
Increase in investments accounted for by the equity method	\$2,976,349	\$23,145,450	\$764,406
Decrease in payable for purchase of investments	55,558	40,880	1,350
Cash paid for increase in long-term investments	\$3,031,907	\$23,186,330	\$765,756
<b>PURCHASE OF PROPERTIES AND ASSETS LEASED TO OTHERS</b>			
Purchase cost of properties and assets leased to others	\$3,252,855	\$5,359,120	\$176,991
Increase in payable for purchase of equipment	(249,681)	(30,185)	(997)
Decrease in lease payable	1,076	-	-
Cash paid for the purchase of properties and assets leased to others	\$3,004,250	\$5,328,935	\$175,994

(Concluded)

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

# HTC CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2010 AND 2011

(In Thousands, Unless Stated Otherwise)

#### (1) ORGANIZATION AND OPERATIONS

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

The Company had 10,843 and 14,506 employees as of December 31, 2010 and 2011, respectively.

#### (2) SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China ("ROC"). Significant accounting policies are summarized as follows:

##### 1. Foreign Currencies

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

- (1) Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- (2) Stockholders' equity - at historical exchange rates;
- (3) Dividends - at the exchange rate prevailing on the dividend declaration date; and
- (4) 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:

- (1) Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity; and
- (2) Recognized in profit and loss if the changes in fair value are 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.

##### 2. Accounting Estimates

Under the above guidelines, law 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, loss on pending litigations, product warranties, bonuses to employees, etc. Actual results may differ from these estimates.

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

##### 3. 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.

##### 4. 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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.

##### 5. 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are the same as those for 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.

##### 6. Revenue Recognition, Accounts Receivable and Allowance for Doubtful Account

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 collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by making an aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

As discussed in Note 4 to the financial statements, on January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." One of the main revisions is that the impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- (1) Significant financial difficulty of the debtor;
- (2) Accounts receivable becoming overdue; or
- (3) It becoming probable that the debtor will enter into bankruptcy or financial reorganization.

Accounts receivable that are assessed not to be impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Company's past experience of collecting payments, an increase in the number of delayed payments, as well as observable changes in national

or local economic conditions that correlate with defaults on receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

#### 7. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and 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.

#### 8. 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.

#### 9. 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.

#### 10. 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.

The acquisition cost is allocated to the assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The fair value of the net identifiable assets acquired in excess of 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.

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.

#### 11. Properties

Properties are stated at cost less accumulated depreciation and accumulated impairment losses. Borrowing costs directly attributable to the acquisition or construction of properties are capitalized as part of the cost of those assets. Major additions and improvements to properties are capitalized, while costs of repairs and maintenance are expensed currently.

Assets held under capital leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments; the corresponding liability is included in the balance sheet as obligations under capital leases. The interest included in lease payments is expensed when paid.

Depreciation is calculated on a straight-line basis over the estimated service lives of the assets plus one additional year for salvage value: buildings (including auxiliary equipment) - 3 to 50 years; machinery and equipment - 3 to 5 years; office equipment

- 3 to 5 years; transportation equipment - 5 years; and leasehold improvements - 3 years.

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

The related cost (including revaluation increment) accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are derecognized from the balance sheet upon property 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.

#### 12. Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Patents are amortized on a straight-line basis over 5 to 10 years.

#### 13. 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.

#### 14. 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 and any remaining loss is charged to earnings.

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 first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount 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 on which the Company has significant influence but over which the Company has no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

#### 15. 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.

#### 16. Warranty Provisions

The Company provides warranty service for one year 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.

#### 17. Provisions for Contingent Loss on Purchase Orders

The provision for contingent loss on purchase orders is estimated after taking into account the effects of changes in the product market, in inventory management and in the Company's purchases.

#### 18. Product-related Costs

The cost of products consists of costs of goods sold, warranty expenses, contingent loss on purchase orders, and inventory write-downs and reversal of these write-downs.

#### 19. 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.

#### 20. Income Tax

The Company applies the intra-year and inter-year allocation methods to its income tax, whereby (1) a portion of income tax expense is allocated to the cumulative effect of changes in accounting principles or charged or credited directly to stockholders' equity; 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 income 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.

If the Company can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment

in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred income tax liability or asset is not recognized.

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.

## 21. Stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under Statement of Financial Accounting Standards No. 39 - "Share-based Payment." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

## 22. 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.

## 23. Reclassifications

Certain 2010 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the year ended December 31, 2011.

## (3) TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2011 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$30.279 to US\$1.00 quoted by Reuters on December 31, 2011. 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) ACCOUNTING CHANGES

### 1. Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change had no material effect on the Company's financial statements as of and for the year ended December 31, 2011.

### 2. Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41 - "Operating Segments." The requirements of the statement are based on the information about the components of the Company that management uses to make decisions about operating matters. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20 - "Segment Reporting." For this accounting change, the Company restated the segment information as of and for the year ended December 31, 2010 to conform to the disclosures as of and for the year ended December 31, 2011.

## (5) CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Cash on hand	\$1,000	\$1,000	\$33	
Cash in banks	15,491,311	21,852,255	721,697	
Time deposits	50,789,765	57,019,065	1,883,122	
	\$66,282,076	\$78,872,320	\$2,604,852	

On time deposits, interest rates ranged from 0.14% to 1.50% and from 0.15% to 1.345%, as of December 31, 2010 and 2011, respectively.

## (6) 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, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Derivatives - financial assets				
Exchange contracts	\$450,276	\$256,868	\$8,483	

The Company had derivative transactions in 2010 and 2011 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 2010 and 2011. Outstanding forward exchange contracts as of December 31, 2010 and 2011 were as follows:

### Forward Exchange Contracts

Buy/Sell	Currency	Settlement Period/Date	2010	
			Contract Amount	
Buy	USD/CAD	2011.01.26	USD	250
Buy	USD/JPY	2011.01.12~2011.02.23	USD	18,187
Sell	EUR/USD	2011.01.05~2011.03.18	EUR	531,000
Sell	GBP/USD	2011.01.12~2011.03.25	GBP	57,400
Sell	USD/NTD	2011.01.03~2011.01.31	USD	447,000

Buy/Sell	Currency	Settlement Period/Date	2011	
			Contract Amount	
Buy	USD/CAD	2012.01.11~2012.02.22	USD	28,010
Buy	USD/RMB	2012.01.04~2012.01.31	USD	105,000
Sell	EUR/USD	2012.01.04~2012.03.30	EUR	339,000
Sell	GBP/USD	2012.01.11~2012.02.22	GBP	17,100

Net gain on derivative financial instruments in 2010 was NT\$759,889 thousand, including a realized settlement gain of NT\$309,613 thousand and a valuation gain of NT\$450,276 thousand.

Net gain on derivative financial instruments in 2011 was NT\$173,575 thousand (US\$5,733 thousand), including a realized settlement loss of NT\$83,293 thousand (US\$2,750 thousand) and a valuation gain

of NT\$256,868 thousand (US\$8,483 thousand). Note 24 has more information.

## (7) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Mutual funds	\$441,948	\$736,031	\$24,308	
Domestic quoted stocks	538	279	9	
Less: Current portion	(441,948)	(736,031)	(24,308)	
	\$538	\$279	\$9	

## (8) NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Notes receivable	\$-	\$755,450	\$24,950	
Accounts receivable	36,187,529	32,838,334	1,084,525	
Less: Allowance for doubtful accounts	(1,008,491)	(1,554,008)	(51,323)	
	\$35,179,038	\$32,039,776	\$1,058,152	

## (9) OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Other receivables (Note 25)	\$677,794	\$1,115,915	\$36,855	
Agency payments	28,610	248,085	8,193	
Interest receivables	11,232	19,927	658	
	\$717,636	\$1,383,927	\$45,706	

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

## (10) INVENTORIES

Inventories as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Finished goods	\$809,469	\$675,712	\$22,316	
Work-in-process	5,408,003	7,849,511	259,240	
Raw materials	11,272,675	16,788,114	554,448	
Goods in transit	4,430,345	75,983	2,509	
	\$21,920,492	\$25,389,320	\$838,513	



As of December 31, 2010 and 2011, the allowances for inventory devaluation were NT\$3,436,697 thousand and NT\$4,631,195 thousand (US\$152,951 thousand), respectively.

The write-down of inventories to their net realizable value, which amounted to NT\$1,297,811 thousand in 2010 and NT\$3,197,362 thousand (US\$105,597 thousand) in 2011, was recognized as cost of sales.

## (11) PREPAYMENTS

Prepayments as of December 31, 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$1,837,341	\$4,802,446	\$158,607
Prepayments to suppliers	1,302	1,198,886	39,594
Services	166,781	548,480	18,114
Software and hardware maintenance	94,871	263,211	8,693
Molding equipment	91,058	188,242	6,217
Others	123,224	39,822	1,315
	\$2,314,577	\$7,041,087	\$232,540

1. Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of December 31, 2010 and 2011, the noncurrent prepayments of NT\$2,484,156 thousand and NT\$4,728,895 thousand (US\$156,177 thousand), respectively, were classified as other assets (Note 28 has more information).
2. Prepayments to suppliers were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of December 31, 2011, noncurrent prepayments of NT\$2,007,160 thousand (US\$66,289 thousand) had been classified as other assets.

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

## (12) HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets as of December 31, 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Corporate bonds	\$207,946	\$204,597	\$6,757

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

## (13) FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of December 31, 2010 and 2011 consisted of domestic unquoted stocks of the following companies:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$500,000	\$500,000	\$16,513
BandRich Inc.	15,861	15,861	524
Answer Online, Inc.	1,192	1,192	39
	517,053	517,053	17,076
Less: Accumulated impairment loss	(1,192)	(1,192)	(39)
	\$515,861	\$515,861	\$17,037

1. In January 2007, the Company acquired 10% equity interest in Hua-Chuang Automobile Information Technical Center Co., Ltd. for NT\$500,000 thousand.
2. 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.
3. 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. After that, the Company's ownership percentage declined from 92% to 18.08% and the Company lost its significant influence on this investee. When the Company's ownership percentage changed in July 2010, the Company transferred this investment to "financial assets carried at cost" using book value.
4. 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.

## (14) INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of December 31, 2010 and 2011 were as follows:

	2010		2011				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
			NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method							
H.T.C. (B.V.I.) Corp.	\$973,231	100.00	\$2,395,492	\$79,114	\$2,728,368	\$90,107	100.00
Communication Global Certification Inc.	399,496	100.00	380,000	12,550	463,905	15,321	100.00
High Tech Computer Asia Pacific Pte. Ltd.	7,685,469	100.00	18,274,127	603,525	23,140,506	764,243	100.00
HTC Investment Corporation	300,789	100.00	300,000	9,908	301,332	9,952	100.00
PT.High Tech Computer Indonesia	62	1.00	62	2	62	2	1.00
HTC I Investment Corporation	\$295,782	100.00	295,000	9,743	\$295,902	9,773	100.00
HTC Holding Cooperatief U.A.	13	1.00	13	1	13	1	1.00
Huada Digital Corporation	245,568	100.00	250,000	8,256	250,689	8,279	50.00
HTC InvestmentOne (BVI) Corporation	-	-	9,309,121	307,444	9,296,786	307,037	100.00
Prepayments for long-term investments	83,665		579,485	19,138	579,485	19,138	-
	\$9,984,075		\$31,783,300	\$1,049,681	\$37,057,048	\$1,223,853	

1. In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. and accounted for this investment by the equity method. The Company made a new investment of NT\$570,991 thousand and reorganized its overseas subsidiaries' investment structure in 2010. Then, H.T.C. (B.V.I.) Corp. transferred some of its subsidiaries to High Tech Computer Asia Pacific Pte. Ltd. and reduced its capital by NT\$893,506 thousand. In 2011, the Company made a new investment of NT\$1,696,821 thousand (US\$56,040 thousand) in H.T.C. (B.V.I.) Corp. As of December 31, 2011, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to NT\$2,552,638 thousand (US\$84,304 thousand). Because the registration of this investment had not been completed as of December 31, 2011, an amount of NT\$157,146 thousand (US\$5,190 thousand) was temporarily accounted for under "prepayments for long-term investments."
2. In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT\$135,000 thousand and accounted for this investment by the equity method. In July 2010 the Company lost its significant influence on this investee and has since accounted for this investment by the cost method (Note 13 has more information).
3. In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc. for NT\$280,000 thousand and accounted for this investment by the equity method. The Company increased this investment by NT\$100,000 thousand in 2010. As of December 31, 2011, the Company's investment in Communication Global Certification Inc. had amounted to NT\$380,000 thousand (US\$12,550 thousand).
4. In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. ("High Tech Asia") and accounted for this investment by the equity method. In 2010, High Tech Asia increased its capital by NT\$3,198,864 thousand because of the Company's new cash investment and a transfer-in due to the reorganization of the Company's overseas subsidiaries' investment structure. In 2011, the Company increased this investment by NT\$11,817,735 thousand (US\$390,295 thousand). As of December 31, 2011, the Company's investment in High Tech Asia had amounted to NT\$18,379,684 thousand (US\$607,011 thousand). Because the registration of this investment had not been completed as of December 31, 2011, an amount of NT\$105,557 thousand (US\$3,486 thousand) was temporarily accounted for under "prepayments for long-term investments."
5. In April 2008, the Company made a bond 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 accounted for this investment by the equity method. After that, the Company's ownership percentage declined from 27.27% to 25.59%, and there was a capital surplus - long-term equity investments of NT\$1,689 thousand in 2008 and NT\$671 thousand in 2009. 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.
6. In July 2008, the Company acquired 100% equity interest in HTC Investment Corporation for NT\$300,000 thousand and has since accounted for this investment by the equity method.
7. In December 2007, the Company and its subsidiary, High Tech Computer Asia Pacific Pte. Ltd., acquired equity interests of 1% and 99%, respectively, in PT. High Tech Computer Indonesia for NT\$62 thousand and NT\$6,122 thousand, respectively. As a result, the Company has accounted for this investment by the equity method.
8. In September 2009, the Company acquired 100% equity interest in HTC I Investment Corporation for NT\$295,000 thousand and has since accounted for this investment by the equity method.

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

10. In December 2009, the Company acquired 100% equity interest in Huada Digital Corporation ("Huada") for NT\$245,000 thousand and accounted for this investment by the equity method. In September 2011, the Company increased this investment by NT\$5,000 thousand (US\$164 thousand). As of December 31, 2011, the Company's investment in Huada had amounted to NT\$250,000 thousand (US\$8,256 thousand). In September 2011, the Fair Trade Commission Executive Yuan, R.O.C. (Taiwan) approved an investment by Chunghwa Telecom Co., Ltd. (CHT) in Huada and the registration of this investment was completed in October 2011. After CHT's investment, the Company's ownership percentage declined from 100% to 50%, resulting in an adjustment debited to capital surplus - long-term equity investments of NT\$374 thousand (US\$12 thousand).

11. In August 2011, the Company acquired 100% equity interest in HTC Investment One (BVI) Corporation for NT\$9,625,903 thousand (US\$317,906 thousand) and accounted for this investment by the equity method. Because the registration of this investment had not been completed as of December 31, 2011, an amount of NT\$316,782 thousand (US\$10,462 thousand) was temporarily accounted for under "prepayments for long-term investments."

12. On its equity-method investments, the Company had gains of NT\$1,457,395 thousand in 2010 and NT\$2,718,362 thousand (US\$89,777 thousand) in 2011.

13. The financial statements of the equity-method investees for the years ended December 31, 2010 and 2011 had been examined by the Company's independent auditors.

14. Under the revised Statement of Financial Accounting Standards No. 7 - "Consolidated Financial Statements," which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the years ended December 31, 2010 and 2011. All significant intercompany balances and transactions have been eliminated.

## (15) PROPERTIES

Properties as of December 31, 2010 and 2011 were as follows:

	2010			2011		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value		
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)	
Land	\$5,690,718	\$7,462,281	\$-	\$7,462,281	\$246,451	
Buildings and structures	2,724,948	3,680,608	937,924	2,742,684	90,580	
Machinery and equipment	2,035,978	7,100,072	4,212,153	2,887,919	95,377	
Molding equipment	-	172,632	172,632	-	-	
Computer equipment	85,412	398,289	300,428	97,861	3,232	
Transportation equipment	4,407	6,570	2,793	3,777	125	
Furniture and fixtures	30,720	204,185	135,689	68,496	2,262	
Leased assets	785	4,712	4,647	65	2	
Leasehold improvements	79,751	215,437	83,795	131,642	4,348	
Prepayments for land, construction-in-progress and equipment-in-transit	288,511	2,027,620	-	2,027,620	66,964	
	\$10,941,230	\$21,272,406	\$5,850,061	\$15,422,345	\$509,341	

- 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 headquarters in Xindian City. The Company had paid 80% and 20% of the purchase price and completed the transfer registration of the corresponding portions of the land in December 2008 and January 2010, respectively.
- In November 2010, the Company bought land and building for NT\$404,000 thousand from a related party, VIA Technologies, Inc. to have more office space in Xindian.
- In April 2011, the Company bought land adjacent to its Taoyuan plant for NT\$1,770,000 thousand (US\$58,456 thousand) from an unrelated party to build a complete HTC technology park and meet future capacity expansion requirements.
- Prepayments for construction-in-progress and equipment-in-transit were for the construction of the Taipei R&D headquarters and Taoyuan plant as well as miscellaneous equipment.
- There were no interests capitalized for 2010 and 2011.

## (16) ACCRUED EXPENSES

Accrued expenses as of December 31, 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$15,742,853	\$25,556,956	\$844,049
Bonus to employees	8,491,704	7,238,637	239,065
Services	2,770,306	2,760,164	91,158
Salaries and bonuses	2,089,517	2,500,248	82,574
Research materials	726,105	1,848,332	61,043
Import, export and freight	1,060,399	1,197,075	39,535
Repairs and maintenance	138,747	264,044	8,720
Donation	217,800	235,800	7,788
Insurance	122,947	188,970	6,241
Meals and welfare	162,337	153,108	5,056
Pension cost	69,296	110,560	3,651
Travel	43,396	49,571	1,637
Others	28,222	260,766	8,612
	\$31,663,629	\$42,364,231	\$1,399,129

- Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2010 and 2011 should be appropriated at 18% and 10%, respectively, 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.
- Service fees accrued referred mainly to marketing activities, research and design, and business consulting services provided by related parties.

## (17) OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Warranty provisions	\$9,057,050	\$12,755,264	\$421,258
Provisions for contingent loss on purchase orders	1,942,147	2,052,881	67,799
Deferred credits - gain from intercompany transactions	345,455	1,151,531	38,031
Other payables (Note 25)	601,717	709,129	23,420
Agency receipts	459,156	388,885	12,843
Advance receipts	333,282	134,748	4,450
Others	371,883	630,563	20,825
	\$13,110,690	\$17,823,001	\$588,626

- The Company provides warranty service for one year 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.
- Other payables were payables for patents, treasury stock, miscellaneous expenses of overseas sales offices and repair materials.
- Agency receipts were primarily employees' income tax, insurance, royalties and overseas value-added tax.
- Deferred credits - gains on intercompany transactions were unrealized profit from intercompany transactions.
- The provision for contingent loss on purchase orders is estimated after taking into account the effects of changes in the product market, in inventory management and in the Company's purchases.

## (18) 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 based on the Act were NT\$219,565 thousand in 2010 and NT\$350,450 thousand (US\$11,574 thousand) in 2011.

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\$447,728 thousand and NT\$481,685 thousand (US\$15,908 thousand) as of December 31, 2010 and 2011, respectively.

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

### 1. The Company's net pension costs under the defined benefit plan in 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Service cost	\$4,915	\$5,980	\$197
Interest cost	6,539	6,858	227
Projected return on plan assets	(8,582)	(9,206)	(304)
Amortization of unrecognized net transition obligation, net	-	-	-
Amortization of net pension benefit	297	492	16
Net pension cost	\$3,169	\$4,124	\$136

### 2. The reconciliations between pension fund status and prepaid pension cost as of December 31, 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Present actuarial value of benefit obligation			
Vested benefit obligation	\$1,525	\$10,026	\$331
Non-vested benefit obligation	190,908	192,737	6,365
Accumulated benefit obligation	192,433	202,763	6,696
Additional benefits on future salaries	150,480	162,889	5,380
Projected benefit obligation	342,913	365,652	12,076
Fair value of plan assets	(447,728)	(481,685)	(15,908)
Funded status	(104,815)	(116,033)	(3,832)
Unrecognized pension loss	(54,130)	(67,794)	(2,239)
Prepaid pension cost	\$(158,945)	\$(183,827)	\$(6,071)

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

	2010	2011
Weighted-average discount rate	2.00%	2.00%
Assumed rate of increase in future compensation	3.75%	4.00%
Expected long-term rate of return on plan assets	2.00%	2.00%

The payments from the fund amounted to NT\$1,702 thousand in 2010 and NT\$793 thousand (US\$26 thousand) in 2011.

## (19) STOCKHOLDERS' EQUITY

### 1. Capital Stock

The Company's outstanding common stock as of January 1, 2010 amounted 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 amounting to NT\$150,000 thousand. In June 2010, the stockholders approved the transfer of retained earnings of NT\$386,968 thousand and employee bonuses of NT\$50,206 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, divided into 817,653 thousand common shares at NT\$10.00 par value.

In June 2011, the stockholders approved the transfer of retained earnings of NT\$403,934 thousand (US\$13,340 thousand) and employee bonuses of NT\$40,055 thousand (US\$1,323 thousand) to capital stock. Also, in December 2011, the Company retired 10,000 thousand treasury shares amounting to NT\$100,000 thousand (US\$3,303 thousand). As a result, the amount of the Company's outstanding common stock as of December 31, 2011 increased to NT\$8,520,521 thousand (US\$281,400 thousand), divided into 852,052 thousand common shares at NT\$10.00 (US\$0.33) par value.

### 2. Global Depository Receipts

The Company issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depository 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, and was issued, at a premium, at 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 depository custodian in Taiwan, GDR holders are entitled to exercise these rights:

- (1) To vote; and
- (2) To receive dividends and participate in new share issuance for cash subscription.

Taking into account the effect of stock dividends, the GDRs increased to 9,015.1 thousand units (36,060.5 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, 2011, there were 6,404.4 thousand units of GDRs redeemed, representing 25,617.5 thousand common shares, and the outstanding GDRs represented 10,443 thousand common shares or 1.25% of the Company's common shares.

### 3. Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from shares 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, with capitalization 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.

#### (1) Additional paid-in capital - issuance of shares in excess of par

The additional paid-in capital was NT\$9,056,323 thousand as of January 1, 2010. In April 2010, the retirement of treasury stock caused a decrease of NT\$172,188 thousand in additional paid-in capital. The bonus to employees of NT\$4,859,236 thousand for 2009 was approved in the stockholders' meeting in June 2010. Of the approved bonus, NT\$1,943,694 thousand was in the form of common stock, consisting of 5,021 thousand common shares at their fair value, which were distributed in 2010. The difference between par value and fair value of NT\$1,893,488 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.

Also, in June 2011, the bonus to employees of NT\$8,491,704 thousand (US\$280,449 thousand) for 2010 was approved in the stockholders' meeting. Of the approved bonus, NT\$4,245,851 thousand (US\$140,224 thousand) was in the form of common stock, consisting of 4,006 thousand common shares at their fair value, which were distributed in 2011. The difference between par value and fair value of NT\$4,205,796 thousand (US\$138,901 thousand) was accounted for as additional paid-in capital in 2011. In December 2011, the retirement of treasury stock caused a decrease of NT\$173,811 thousand (US\$5,740 thousand) in additional paid-in capital. As a result, the additional paid-in capital as of December 31, 2011 was NT\$14,809,608 thousand (US\$489,105 thousand).

#### (2) Treasury stock transactions and expired stock options

In June 2011, the Company resolved to transfer treasury shares to employees. In 2011, the number of shares for transfer to employees was 6,000 thousand, with 5,875 thousand shares exercised. Based on the fair value at the grant date, NT\$1,750,767 thousand (US\$57,821 thousand) was accounted for as capital surplus - treasury stock transactions, and NT\$37,503 thousand (US\$1,239 thousand) for the unexercised 125 thousand shares was accounted for as capital surplus - expired stock options. Also, in December 2011, the retirement of treasury stock caused decreases in treasury stock transactions and expired stock options of NT\$20,309 thousand (US\$671 thousand) and NT\$435 thousand (US\$15 thousand), respectively. As a result, the treasury stock transactions and expired stock options as of December 31, 2011 were NT\$1,730,458 thousand (US\$57,150 thousand) and NT\$37,068 thousand (US\$1,224 thousand), respectively.

The fair values at the grant date for the fifth and sixth stock option buyback were NT\$394.105 and NT\$210.121, respectively. These fair values were estimated using the Black-Scholes option valuation model. The inputs to the model were as follows:

		5 <sup>th</sup> Buyback	6 <sup>th</sup> Buyback
Assumption	Exercise price (NT\$)	\$598.83	\$797.30
	Expected dividend yield	3.71%	3.71%
	Expected life	1.67 months	1.67 months
	Expected price volatility	56.99%	56.99%
	Risk-free interest rate	0.7157%	0.7157%
Fair value		\$394.105	\$210.121

#### (3) Long-term equity investments

As of January 1, 2010, the capital surplus from long-term equity-method investments was NT\$18,411 thousand. When the Company did not subscribe for the new shares issued by an equity-method investee, Huada Digital Corporation, in September 2011, the Company's total investment carrying value and capital surplus decreased by NT\$374 thousand (US\$12 thousand) each in 2011. As a result, the capital surplus from long-term equity-method investments as of December 31, 2011 was NT\$18,037 thousand (US\$596 thousand).

#### (4) Merger

The additional paid-in capital from a merger was NT\$25,189 thousand as of January 1, 2010. In April 2010, the retirement of treasury stock caused a decrease of NT\$479 thousand in additional paid-in capital from a merger. As a result, the additional paid-in capital from a merger as of December 31, 2010 was NT\$24,710 thousand. Also, in December 2011, the retirement of treasury stock caused a decrease of NT\$287 thousand (US\$9 thousand) in additional paid-in capital from a merger. As a result, the additional paid-in capital from a merger as of December 31, 2011 was NT\$24,423 thousand (US\$807 thousand).

### 4. Appropriation of Retained Earnings and Dividend Policy

- (1) 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.

- (2) Legal reserve shall be appropriated until it has reached the Company's paid-in capital. This reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

- (3) As part of a high-technology industry and as 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.

(4) The bonus to employees of NT\$4,859,236 thousand for 2009 was approved in the stockholders' meeting in June 2010. The bonus to employees consisted of a cash bonus of NT\$2,915,542 thousand and a share bonus of NT\$1,943,694 thousand. The share number 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.

(5) The bonus to employees of NT\$8,491,704 thousand for 2010 was approved in the stockholders' meeting in June 2011. The bonus to employees consisted of a cash bonus of NT\$4,245,852 thousand and a share bonus of NT\$4,245,852 thousand (the amounts were NT\$4,245,853 thousand and NT\$4,245,851 thousand, respectively, after taking into account the effect that the amount less than one share will be distributed in the form of cash). The share number of 4,006 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.

(6) Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2010 and 2011 should be appropriated at 18% and 10%, respectively, 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 February 14, 2012, the date of the accompanying independent auditors' report, the appropriation of the 2011 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed on the Market Observation Post System website.

## (20) TREASURY STOCK

- On February 9, 2010, the Company's board of directors passed a resolution to buy back 15,000 thousand of its 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 planned to continue to buy back its shares. The Company bought back 15,000 thousand shares for NT\$4,834,174 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 of its 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 planned to continue to buy back its shares. The Company bought back 4,786 thousand shares for NT\$2,865,990 thousand during the repurchase period.
- On October 29, 2010, the Company's board of directors passed a resolution to buy back 5,000 thousand and 5,000 thousand of its 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 planned to continue to buy back its shares. The Company bought back 5,000 thousand shares for NT\$3,986,503 thousand during these repurchase periods.
- In June 2011, the Company resolved to transfer 6,000 thousand treasury shares to employees; the number of shares actually transferred was 5,875 thousand.
- The Company resolved to transfer 6,000 thousand treasury stocks to employees in June 2011, and the number of shares actually transferred was 5,875 thousand.
- On July 16, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand and 10,000 thousand of its shares from the open market between July 18, 2011 and August 17, 2011, and between August 18, 2011 and September 17, 2011, respectively, with the repurchase price ranging from NT\$900 (US\$30) to NT\$1,100 (US\$36) per share. If the Company's share price was lower than this price range, the Company planned to continue to buy back its shares. The Company bought back 20,000 thousand shares for NT\$16,086,098 thousand (US\$531,262 thousand) during the repurchase period and retired 10,000 thousand shares in December 2011.
- On December 20, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand of its shares from the open market between December 20, 2011 and February 19, 2012, with the repurchase price ranged from NT\$445 (US\$15) to NT\$650 (US\$21) per share. If the Company's share price becomes lower than this price range, the Company planned to continue to buy back its shares.

As of December 31, 2011, the Company had bought back 100 thousand shares for NT\$49,710 thousand (US\$1,642 thousand). Other treasury stock information for 2010 and 2011 were as follows:

(In Thousands of Shares)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
Year ended December 31, 2010				
To maintain the Company's credibility and stockholders' interest	-	15,000	15,000	-
For transferring shares to the Company's employees	-	9,786	-	9,786
	-	24,786	15,000	9,786
Year ended December 31, 2011				
To maintain the Company's credibility and stockholders' interest	-	10,000	10,000	-
For transferring shares to the Company's employees	9,786	10,100	5,875	14,011
	9,786	20,100	15,875	14,011

- 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 shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par, and paid-in capital reserve. In addition, the Company should not pledge its treasury shares nor exercise voting rights.

## (21) PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

Expense Item	Function	2010			2011			2011		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses		\$4,599,227	\$12,688,670	\$17,287,897	\$5,280,875	\$13,366,157	\$18,647,032	\$174,407	\$441,433	\$615,840
Salary		3,995,447	12,103,004	16,098,451	4,265,616	12,511,284	16,776,900	140,877	413,200	554,077
Insurance		204,932	212,854	417,786	366,969	305,644	672,613	12,120	10,094	22,214
Pension cost		80,857	141,877	222,734	156,967	197,607	354,574	5,184	6,526	11,710
Other		317,991	230,935	548,926	491,323	351,622	842,945	16,226	11,613	27,839
Depreciation		299,285	322,728	622,013	504,199	424,575	928,774	16,652	14,022	30,674
Amortization		34,987	23,634	58,621	387,103	9,919	397,022	12,784	328	13,112

## (22) INCOME TAX

The Company's income tax returns through 2008 had been examined by the tax authorities. However, the Company disagreed with the tax authorities' assessment on its return for 2002 and applied for the administrative litigation of this return. Nevertheless, under the conservatism guideline, the Company adjusted its income tax for the tax shortfall stated in the tax assessment notices.

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

Item Exempt from Corporate Income Tax	Exemption Period
Sales of pocket PCs (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
Sales of wireless or smartphone which has 3.5G function (application for exemption under review by the Ministry of Finance as of December 31, 2011)	2012.01.01-2016.12.31

**1. In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, also effective January 1, 2010. Income taxes payable as of December 31, 2010 and 2011 were computed as follows:**

	2010	2010	2011
	NT\$	NT\$	US\$ (Note 3)
Income before income tax	\$44,491,309	\$69,849,671	\$2,306,868
Gains on equity-method investments	(1,457,395)	(2,718,362)	(89,777)
Impairment loss on financial assets carried at cost	1,192	-	-
Realized investment loss	(101,268)	(40,986)	(1,354)
Realized pension cost	(21,293)	(24,882)	(822)
Unrealized losses on decline in value of inventory	789,930	1,194,497	39,450
Unrealized royalties	7,782,060	13,500,587	445,873
Realized exchange losses, net	(156,772)	(893,584)	(29,512)
(Realized) unrealized bad-debt expenses	(357,947)	523,546	17,291
Capitalized expense	(49,924)	21,421	707
Unrealized warranty expense	3,769,488	3,698,214	122,138
Unrealized marketing expenses	7,169,890	9,824,170	324,455
(Unrealized) realized valuation gains on financial instruments	(432,144)	193,408	\$6,388
Unrealized contingent losses on purchase orders	1,216,443	110,734	3,657
Unrealized gains on intercompany transactions	237,305	806,075	26,622
Unrealized research materials expenses	-	456,098	15,063
Unrealized sales allowance	-	176,442	5,827
Unrealized (realized) salary expense	700,000	(700,000)	(23,118)
Other	(281,695)	(89,782)	(2,965)
Total income	63,299,179	95,887,267	3,166,791
Less: Tax-exempt income	(56,137,044)	(77,353,700)	(2,554,698)
Taxable income	7,162,135	18,533,567	612,093
Tax rate	17%	17%	17%
Estimated income tax provision	1,217,563	3,150,706	104,056
Unappropriated earnings (additional 10% income tax)	-	865,772	28,593
Less: Investment research and development tax credits (Industrial Innovation Act)	-	(865,772)	(28,593)
Income tax payable determined pursuant to the Income Tax Law	\$1,217,563	\$3,150,706	\$104,056
Alternative minimum tax	\$6,330,018	\$9,588,529	\$316,672
Less: Prepaid and withheld income tax	(28,685)	(61,661)	(2,036)
Prior years' income tax payable	115,334	126,222	4,169
Income tax payable	\$6,416,667	\$9,653,090	\$318,805

The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. As a result, the current income tax payable as of December 31, 2010 and 2011 should be NT\$6,330,018 thousand and NT\$9,588,529 thousand (US\$316,672 thousand), respectively.

**2. Deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2010 and 2011 were as follows:**

	2010	2010	2011
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Allowance for loss on decline in value of inventory	\$584,238	\$787,303	\$26,002
Unrealized marketing expenses	2,676,285	4,344,683	143,488
Unrealized warranty expense	1,539,698	2,168,395	71,614
Capitalized expense	74,045	69,244	2,287
Unrealized royalties	2,522,645	4,817,745	159,112
Unrealized contingent losses on purchase orders	206,795	348,990	11,526
Unrealized bad-debt expenses	64,353	153,355	5,065
Unrealized exchange losses, net	268,248	138,092	4,560
Unrealized research materials	-	138,502	4,574

(Continued)

	2010	2010	2011
	NT\$	NT\$	US\$ (Note 3)
Unrealized sales allowance	-	71,874	2,374
Other	131,570	102,064	3,371
Tax credit carryforwards	3,141,129	3,123,594	103,160
Total deferred tax assets	11,209,006	16,263,841	537,133
Less: Valuation allowance	(7,760,428)	(10,962,549)	(362,052)
Total deferred tax assets, net	3,448,578	5,301,292	175,081
Deferred tax liabilities			
Unrealized pension cost	(27,021)	(31,251)	(1,032)
Unrealized valuation gains on financial instruments	(76,547)	(43,668)	(1,442)
Other	-	(112,551)	(3,717)
	3,345,010	5,113,822	168,890
Less: Current portion	(925,579)	(1,517,302)	(50,111)
Deferred tax assets - noncurrent	\$2,419,431	\$3,596,520	\$118,779

(Concluded)

**3. Details of the tax credit carryforwards were as follows:**

Year of Occurrence	Validity Period	2010	2010	2011
		NT\$	NT\$	US\$ (Note 3)
2012	2008-2012	\$831,154	\$813,302	\$26,860
2013	2009-2013	2,309,975	2,310,286	76,300
2014	2010-2014	-	6	-
		\$3,141,129	\$3,123,594	\$103,160

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

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

**4. The income taxes in 2010 and 2011 were as follows:**

	2010	2010	2011
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$6,330,018	\$9,588,529	\$316,672
Increase in deferred income tax assets	(1,467,669)	(1,768,812)	(58,417)
Underestimation of prior year's income tax	95,360	54,158	1,789
Income tax	\$4,957,709	\$7,873,875	\$260,044

**5. The integrated income tax information is as follows**

	2010	2010	2011
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account (ICA)	\$3,098,652	\$2,523,575	\$83,344
Unappropriated earnings generated from 1998	52,876,892	75,762,315	2,502,141
Actual/estimated creditable ratio (including income tax payable)	17.73%	15.91%	15.91%
	(Actual ratio)	(Estimated ratio)	(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 2011 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

In the calculation of the expected creditable ratio for 2010 and 2011, the income taxes payable as of December 31, 2010 and 2011 were included.

## (23) 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 856,001 thousand shares for 2010 and 845,319 thousand shares for 2011. EPS for 2010 was calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2011.

The Accounting Research and Development Foundation issued Interpretation 2007-052, which 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 2010 and 2011 is as follows:

	2010		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Amount (Numerator)			Before Income Tax	After Income Tax
	Before Income Tax	After Income Tax			
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$44,491,309	\$39,533,600	856,001	\$51.98	\$46.18
Bonus to employees	-	-	10,201		
Diluted EPS	\$44,491,309	\$39,533,600	866,202	\$51.36	\$45.64

	2011		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Amount (Numerator)			Before Income Tax	After Income Tax
	Before Income Tax	After Income Tax			
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$69,849,671	\$61,975,796	845,319	\$82.63	\$73.32
Bonus to employees	-	-	16,527		
Diluted EPS	\$69,849,671	\$61,975,796	861,846	\$81.05	\$71.91

	2011		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Amount (Numerator)			Before Income Tax	After Income Tax
	Before Income Tax	After Income Tax			
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
Basic EPS	\$2,306,868	\$2,046,824	845,319	\$2.73	\$2.42
Bonus to employees	-	-	16,527		
Diluted EPS	\$2,306,868	\$2,046,824	861,846	\$2.68	\$2.37

## (24) FINANCIAL INSTRUMENTS

### 1. Fair Value of Financial Instruments

#### (1) Nonderivative financial instruments

	2010		2011		December 31	
	Carrying Amount		Carrying Amount		Fair Value	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Assets						
Available-for-sale financial assets - current	\$441,948	\$441,948	\$736,031	\$24,308	\$736,031	\$24,308
Available-for-sale financial assets - noncurrent	538	538	279	9	279	9
Held-to-maturity financial assets - noncurrent	207,946	207,467	204,597	6,757	203,783	6,730
Financial assets carried at cost	515,861	515,861	515,861	17,037	515,861	17,037

### (2) Derivative financial instruments

	2010		2011		December 31	
	Carrying Amount		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	\$450,276	\$450,276	\$256,868	\$8,483	\$256,868	\$8,483

### 2. Methods and Assumptions Used in Determining Fair Values of Financial Instruments

- (1) 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.
- (2) The financial instruments exclude refundable deposits and guarantee deposits. The fair values of refundable deposits and guarantee deposits received are based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.
- (3) 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 with no quoted market prices.
- (4) 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.

### 3. Fair Values of Financial Instruments Based on Quoted Market Prices or Valuation Methods

	Fair Values Based on Quoted Market Prices			Fair Values Based on Valuation Methods		
	December 31			December 31		
	2010	2011	US\$ (Note 3)	2010	2011	US\$ (Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$-	\$-	\$-	\$450,276	\$256,868	\$8,483
Available-for-sale financial assets - current	441,948	736,031	24,308	-	-	-
Available-for-sale financial assets - noncurrent	538	279	9	-	-	-
Held-to-maturity financial assets - noncurrent	207,467	203,783	6,730	-	-	-
Financial assets carried at cost	-	-	-	515,861	515,861	17,037

There was no loss or gain recognized for 2010 and 2011 on the fair value changes of derivatives with fair values estimated using valuation techniques. However, the Company recognized unrealized gains of NT\$773 thousand for 2010 and NT\$3,824 thousand (US\$126 thousand) for 2011 under stockholders' equity for the changes in fair value of available-for-sale financial assets.

As of December 31, 2010 and 2011, financial assets exposed to fair value interest rate risk amounted to NT\$207,946 thousand and NT\$204,597 thousand (US\$6,757 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$50,853,665 thousand and NT\$57,082,965 thousand (US\$1,885,232 thousand), respectively.

### 4. Financial Risks

#### (1) 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.

#### (2) 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.



### (3) Cash flow risk

The Company's operating funds are deemed sufficient to meet the cash flow demand; thus, liquidity risk is not considered significant. Under the regulations of the Securities and Futures Bureau, the derivative contracts that subsidiaries entered into are briefly disclosed as follows:

#### Saffron Digital Ltd.

Saffron Digital Ltd. ("Saffron") entered into derivative contracts to manage exposures due to exchange rate fluctuations. Saffron's derivative contracts did not meet the criteria for hedge accounting and thus were not classified as a financial asset or a financial liability held for trading. The fair values of these derivatives were determined using valuation techniques incorporating estimates, and changes in fair value of these derivatives were recognized directly in profit or loss for the period.

The Company acquired Saffron in January 2011. Saffron had settled the forward exchange contracts as of December 31, 2011, and the realized settlement loss on these contracts was NT\$1,074 thousand (US\$35 thousand).

## (25) RELATED-PARTY TRANSACTIONS

### 1. The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Way-Lien Technology Co., Ltd	Significant stockholder of the Company
WTI Investment International, Ltd.	Its significant stockholder in substance is the Company's chairperson
VIABASE CO., LTD.	Chairperson of its parent company is the same as that of the Company
S3 Graphics Co., Ltd.	A wholly owned subsidiary of VIABASE CO., LTD. and WTI Investment International, Ltd.
H.T.C. (B.V.I.) Corp.	Subsidiary
BandRich Inc.	Originally a subsidiary of the Company until July 2010 because of losing significant influence
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC Investment Corporation	Subsidiary
HTC I Investment Corporation	Subsidiary
Huada Digital Corporation	Subsidiary
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer (H.K.) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) Pty. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Philippines Corporation	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
PT. High Tech Computer Indonesia	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Thailand) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Innovation Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Communication Co., Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC HK, Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Holding Cooperatief U.A.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Corporation (Shanghai WGQ)	Subsidiary of HTC HK, Limited.
HTC Electronics (Shanghai) Co., Ltd.	Subsidiary of HTC HK, Limited.
HTC Netherlands B.V.	Subsidiary of HTC Holding Cooperatief U.A.
HTC EUROPE CO., LTD.	Subsidiary of HTC. Netherlands B.V.
HTC BRASIL	Subsidiary of HTC. Netherlands B.V.
HTC Belgium BVBA/SPRL	Subsidiary of HTC. Netherlands B.V.
HTC NIPPON Corporation	Subsidiary of HTC. Netherlands B.V.
HTC FRANCE CORPORATION	Subsidiary of HTC. Netherlands B.V.
HTC South Eastern Europe Limited Liability Company	Subsidiary of HTC. Netherlands B.V.
HTC Nordic ApS	Subsidiary of HTC. Netherlands B.V.
HTC Italia SRL	Subsidiary of HTC. Netherlands B.V.
HTC Germany GmbH.	Subsidiary of HTC. Netherlands B.V.
HTC Iberia S.L.	Subsidiary of HTC. Netherlands B.V.
HTC Poland sp. z o.o.	Subsidiary of HTC. Netherlands B.V.
Saffron Media Group Ltd.	Subsidiary of HTC. Netherlands B.V.

(Continued)

Related Party	Relationship with the Company
HTC America Holding Inc.	Subsidiary of HTC EUROPE CO., LTD.
ABAXIA SAS	Subsidiary of HTC France Corporation
HTC America Inc.	Subsidiary of HTC America Holding Inc.
One & Company Design Inc.	Subsidiary of HTC America Holding Inc.
HTC America Innovation Inc.	Subsidiary of HTC America Holding, Inc.
HTC BLR	Subsidiary of ABAXIA SAS
Saffron Digital Ltd.	Subsidiary of Saffron Media Group Ltd.
Saffron Digital Inc.	Subsidiary of Saffron Media Group Ltd.
HTC Communication Canada, Ltd.	Subsidiary of HTC. Netherlands B.V.
HTC Luxembourg S.a.r.l.	Subsidiary of HTC. Netherlands B.V.
HTC America Content Services, Inc.	Subsidiary of HTC America Holding Inc.
HTC Norway AS	Subsidiary of HTC. Netherlands B.V.
HTC RUS LLC	Subsidiary of HTC. Netherlands B.V.
HTC Communication Sweden AB	Subsidiary of HTC. Netherlands B.V.
Dashwire, Inc.	Subsidiary of HTC America Holding Inc.
HTC Investment One (BVI) Corp.	Subsidiary
Inquisitive Minds, Inc.	Subsidiary of HTC America Holding Inc.
Beats Electronics, LLC	Subsidiary of HTC America Holding Inc.
HTC Communication Technologies (SH)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
Employees' Welfare Committee	Employees' Welfare Committee of HTC Corporation
HTC Cultural and Educational Foundation	A nonprofit organization with over one third of its total funds donated by the Company
HTC Social Welfare and Charity Foundation	A nonprofit organization with over one third of its total funds donated by the Company

(Concluded)

### 2. Major transactions with related parties are summarized below

#### (1) Purchases of Inventories and Services

Related Party	2010		2011	
	Amount	% to Total Net Purchases	Amount	% to Total Net Purchases
	NT\$		NT\$	US\$ (Note 3)
HTC Electronics (Shanghai) Co., Ltd.	\$298,526	-	\$1,217,889	\$40,222
Chander Electronics Corp.	270,931	-	172,540	5,699
High Tech Computer Corp. (Suzhou)	39,876	-	-	-
	\$609,333	-	\$1,390,429	\$45,921

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

#### (2) Sales and Services Provided

Related Party	2010		2011	
	Amount	% to Total Revenues	Amount	% to Total Revenues
	NT\$		NT\$	US\$ (Note 3)
HTC America Inc.	\$86,510,154	32	\$201,020,041	\$6,638,926
HTC Communication Co., Ltd.	2,565,782	1	20,728,859	684,595
Employees' Welfare Committee	34,138	-	52,540	1,735
Exedea Inc.	1,126,078	-	-	-
Others	232,547	-	44,309	1,464
	\$90,468,699	33	\$221,845,749	\$7,326,720

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

#### (3) Accounts Receivable

Related Party	2010		December 31 2011	
	Amount	% to Total Accounts Receivable	Amount	% to Total Accounts Receivable
	NT\$		NT\$	US\$ (Note 3)
HTC America Inc.	\$26,738,921	42	\$29,333,501	\$968,774
HTC Communication Co., Ltd.	1,388,612	2	3,600,517	118,911
Others	58,858	-	43,251	1,429
	\$28,186,391	44	\$32,977,269	\$1,089,114

**(4) Accounts Payable**

	December 31				
	2010		2011		
	Amount	% to Total Accounts Payable	Amount	% to Total Accounts Payable	
Related Party	NT\$	NT\$	US\$ (Note 3)		
HTC Electronics (Shanghai) Co., Ltd.	\$1,184,262	2	\$3,639,231	\$120,190	5
Chander Electronics Corp.	126,093	-	-	-	-
High Tech Computer Corp. (Suzhou)	36,550	-	-	-	-
Others	76	-	-	-	-
	\$1,346,981	2	\$3,639,231	\$120,190	5

**(5) Other Receivables**

	December 31				
	2010		2011		
	Amount	% to Total Other Receivable	Amount	% to Total Other Receivable	
Related Party	NT\$	NT\$	US\$ (Note 3)		
HTC America Inc.	\$34,034	5	\$74,103	\$2,448	7
HTC EUROPE CO., LTD.	1,697	-	2,129	70	-
Others	454	-	2,845	94	-
	\$36,185	5	\$79,077	\$2,612	7

**(6) Prepaid Expenses**

	December 31				
	2010		2011		
	Amount	% to Total Prepayment	Amount	% to Total Prepayment	
Related Party	NT\$	NT\$	US\$ (Note 3)		
HTC America Innovation Inc.	\$66,989	3	\$378,488	\$12,500	5
HTC India Private Limited	10,927	-	73,015	2,411	2
HTC HK, Limited	-	-	37,283	1,231	-
HTC NIPPON Corporation	42,984	2	25,386	839	-
HTC (Thailand) Ltd.	-	-	19,494	644	-
HTC BRASIL	35,035	2	1,917	63	-
Others	4,023	-	11,884	393	-
	\$159,958	7	\$547,467	\$18,081	7

**(7) Accrued Expenses**

	December 31				
	2010		2011		
	Amount	% to Total Accrued Expenses	Amount	% to Total Accrued Expenses	
Related Party	NT\$	NT\$	US\$ (Note 3)		
HTC EUROPE CO., LTD.	\$610,022	2	\$770,897	\$25,460	2
High Tech Computer Asia Pacific Pte. Ltd.	100,001	-	422,582	13,956	1
HTC HK, Limited	-	-	402,238	13,284	1
HTC America Innovation Inc.	27,484	-	342,567	11,314	1
HTC India Private Limited	68,655	-	284,645	9,401	1
HTC Cultural and Educational Foundation	217,800	1	217,800	7,193	1
HTC (Thailand) Limited	18,903	-	134,981	4,458	-
HTC (Australia and New Zealand) Pty. Ltd.	150,526	1	126,514	4,178	-
HTC Belgium BVBA/SPRL	40,374	-	80,265	2,651	-
Communication Global Certification Inc.	31,886	-	34,151	1,128	-
Saffron Digital Ltd.	-	-	35,573	1,175	-
ABAXIA SAS	13,038	-	32,727	1,081	-
HTC Nordic ApS	30,803	-	26,012	859	-
HTC Innovation Limited	73,009	-	23,866	788	-
High Tech Computer (H.K.) Limited	85,871	-	-	-	-
HTC BRASIL	37,462	-	-	-	-
Others	116,180	1	92,148	3,043	-
	\$1,622,014	5	\$3,026,966	\$99,969	7

**(8) Other Payables to Related Parties**

	December 31				
	2010		2011		
	Amount	% to Total Other Payables	Amount	% to Total Other Payables	
Related Party	NT\$	NT\$	US\$ (Note 3)		
HTC America Inc.	\$173,961	28	\$212,272	\$7,011	30
HTC EUROPE CO, LTD.	87,266	15	101,996	3,369	14
Saffron Digital Ltd.	-	-	47,460	1,567	7
HTC Corporation (Shanghai WGQ)	25,802	4	32,261	1,065	5
HTC Nippon Corporation	7,084	1	21,810	720	3
High Tech Computer Asia Pacific Pte. Ltd.	47,335	8	6,145	203	1
HTC America Innovation Inc.	113,407	19	-	-	-
Others	21,381	4	10,383	343	1
	\$476,236	79	\$432,327	\$14,278	61

**(9) Outsourcing Expenses**

	December 31				
	2010		2011		
	Amount	% to Total Outsourcing Expenses	Amount	% to Total Outsourcing Expenses	
Related Party	NT\$	NT\$	US\$ (Note 3)		
HTC Electronics (Shanghai) Co., Ltd.	\$11,010,333	95	\$24,886,361	\$821,902	99

**(10) Warranty Expenses**

	December 31				
	2010		2011		
	Amount	% to Total Warranty Expenses	Amount	% to Total Warranty Expenses	
Related Party	NT\$	NT\$	US\$ (Note 3)		
HTC EUROPE CO., LTD.	\$275,025	3	\$270,479	\$8,933	2
HTC Corporation (Shanghai WGQ)	104,176	1	222,830	7,359	2
High Tech Computer Asia Pacific Pte. Ltd.	62,068	1	71,402	2,358	-
HTC BRASIL	13,048	-	31,791	1,050	-
HTC HK, Limited	-	-	13,097	433	-
High Tech Computer (H.K.) Limited	40,707	-	10,210	337	-
HTC America Inc.	793,998	8	-	-	-
Others	24,650	-	23,931	790	-
	\$1,313,672	13	\$643,740	\$21,260	4

**(11) Commission Expenses**

	December 31				
	2010		2011		
	Amount	% to Total Commission Expenses	Amount	% to Total Commission Expenses	
Related Party	NT\$	NT\$	US\$ (Note 3)		
HTC EUROPE CO., LTD.	\$3,674,661	81	\$5,817,831	\$192,141	80
HTC Belgium BVBA/SPRL	528,017	12	498,155	16,452	7
HTC Nordic ApS	91,146	2	265,199	8,759	4
HTC Germany GmbH	48,947	1	265,462	8,767	4
HTC FRANCE CORPORATION	76,889	2	181,857	6,006	2
HTC Iberia, S.L.	16,279	-	103,229	3,409	1
HTC Netherlands B.V.	48,855	1	90,390	2,985	1
Others	37,168	1	96,369	3,183	1
	\$4,521,962	100	\$7,318,492	\$241,702	100

**(12) Service and Marketing Fees**

	December 31				
	2010		2011		
	Amount	% to Total Service Expenses	Amount	% to Total Service Expenses	
Related Party	NT\$	NT\$	US\$ (Note 3)		
HTC America Innovation Inc.	\$278,890	2	\$1,845,128	\$60,938	7
High Tech Computer Asia Pacific Pte. Ltd.	312,685	2	1,042,726	34,437	4
HTC (Australia and New Zealand) Pty. Ltd.	332,085	2	711,604	23,501	3

(Continued)



	2010		2011	
	Amount	% to Total Service Expenses	Amount	% to Total Service Expenses
Related Party	NT\$		NT\$	US\$ (Note 3)
HTC HK, Limited	\$881	-	\$691,116	\$22,825
HTC India Private Limited	149,498	1	450,601	14,882
HTC Innovation Limited	188,065	1	343,031	11,329
ABAXIA SAS	56,751	-	281,221	9,288
One & Company Design, Inc.	160,473	1	269,350	8,896
Saffron Digital Ltd.	-	-	251,774	8,315
HTC (Thailand) Limited	70,248	1	239,050	7,895
Communication Global Certification Inc.	163,565	1	237,324	7,838
HTC Malaysia Sdn. Bhd.	76,639	-	232,818	7,689
HTC BRASIL	175,816	1	169,549	5,599
HTC NIPPON Corporation	106,811	1	156,130	5,156
High Tech Computer (H.K.) Limited	192,255	2	70,068	2,314
HTC America Inc.	2,276,534	16	-	-
Others	16,080	-	96,637	3,192
	\$4,557,276	31	\$7,088,127	\$234,094

(Concluded)

### (13) Rental Revenues

	2010		2011	
	Amount	% to Total Other Revenues	Amount	% to Total Other Revenues
Related Party	NT\$		NT\$	US\$ (Note 3)
Chander Electronics Corp.	-	-	\$920	\$30

### (14) Other Revenues

	2010		2011	
	Amount	% to Total Other Revenues	Amount	% to Total Other Revenues
Related Party	NT\$		NT\$	US\$ (Note 3)
BandRich Inc.	\$200	-	-	-

### (15) Leasing - Lessee

Operating expenses - rental expenses

	2010		2011	
	Amount	% to Total Other Revenues	Amount	% to Total Other Revenues
Related Party	NT\$		NT\$	US\$ (Note 3)
VIA Technologies Inc.	\$12,212	16	\$5,209	\$172

The Company leased offices and parking space owned by VIA Technologies, Inc. under operating lease agreements. The term of the lease agreement is from May 10, 2008 to March 31, 2012 and the rental payment was determined at the prevailing rates in the surrounding area.

### (16) Trademark and Technology License Agreement

#### Beats Electronic, LLC

In order to enhance the product diversity, the Company entered into a trademark and technology license agreement with Beats Electronics, LLC. The agreement took effect in August 2011 and will end in December 2016. The royalty expense for 2011 was NT\$24,176 thousand (US\$798 thousand), and the prepayment for royalty was NT\$157,498 thousand (US\$5,202 thousand) as of December 31, 2011.

### (17) Donation

	2010		2011	
	Amount	% to Total Donation Expenses	Amount	% to Total Donation Expenses
Related Party	NT\$		NT\$	US\$ (Note 3)
HTC Cultural and Educational Foundation	\$150,000	49	\$150,000	\$4,954
HTC Social Welfare and Charity Foundation	150,000	49	150,000	4,954
	\$300,000	98	\$300,000	\$9,908

The Company donated NT\$305,500 thousand in 2010 and NT\$388,050 thousand (US\$12,816 thousand) in 2011 to help disadvantaged minorities, teenagers and other people in need. Of these donations, NT\$5,500 thousand in 2010 and NT\$88,050 thousand (US\$2,908 thousand) in 2011 went to unrelated parties (Note 16 has more information).

### (18) Property Transactions

a. S3 Graphics Co, Ltd. ("S3 Graphics") owns patents on key graphics technologies, which can strengthen the Company's patent portfolio and counteract the patent rights of competitors and potential licensors around the globe. In their meeting on July 6, 2011, the Board of Directors resolved to invest in S3 Graphics, and in November 2011, the Company obtained all patents owned by S3 Graphics through the purchase of all the shares of S3 Graphics from VIABASE CO., LTD. and WTI Investment International, Ltd. by increasing the capital of HTC Investment One (BVI) Corporation by an amount of US\$300,000 thousand.

b. In 2011, the Company bought building equipment from Chander Electronics Corp. for NT\$6,555 thousand (US\$216 thousand).

c. In November 2010, the Company bought land and building for NT\$404,000 thousand from a related party, VIA Technologies, Inc. to have more office space in Xindian.

### (19) Endorsement/Guarantee Provided

Note 27 has more information.

### (20) Patent Litigation

Note 29 has more information.

## 3. Compensation of Directors, Supervisors and Management Personnel

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Salaries	\$85,045	\$106,673	\$3,523	
Incentives	216,618	67,282	2,222	
Special compensation	3	-	-	
Bonus	1,386,441	(Note)	(Note)	
	\$1,688,107	\$173,955	\$5,745	

Note: The appropriation of the 2011 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 2010 and 2011 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, 2010 included bonuses appropriated from the earnings of 2010, which were approved by the stockholders in their annual meeting in 2011.

### (26) PLEDGED ASSETS

As of December 31, 2010 and 2011, the Company had provided time deposits of NT\$63,900 thousand (US\$2,110 thousand) to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

### (27) COMMITMENTS AND CONTINGENCIES

- As of December 31, 2011, unused letters of credit amounted to US\$1,951 thousand.
- The Company provided a US\$15,000 thousand guarantee for HTC Electronics (Shanghai) Co., Ltd.'s bank loans. The Company terminated the guarantee in April 2011.
- Under the unit purchase agreement between the Company and Beats Electronics, LLC, the founding members of Beats Electronics, LLC shall have a put right to sell the Company all of the interests by years. In addition, the Company shall have a call right to make a purchase of all the founding members' interests. The put right and call right are terminated automatically upon the consummation of a qualified IPO.

## (28) 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 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement term 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.
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 - December 31, 2016	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 in the agreement.	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 in the agreement.	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 in the agreement. b. Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents in the agreement.	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.

## (29) OTHER EVENTS

### 1. Lawsuit

- (1) 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 European Patent Office ("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 of the revised very restricted claim. The risk of this newly asserted patent is very low.

In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent #100a (EP 1841268B1) with the High Court in London. Preliminary injunction and summary judgment against the Company are very unlikely.

In December 2011, the Company withdrew its appeal with the court of Appeal in Karlsruhe, Germany, in order to avoid possible finding of infringement on #100a (EP 1841268B1). IPCom has started enforcement proceedings of original #100 injunction. The Company has now fully implemented workaround in place, so business is not affected in Germany.

Also, IPCom filed a multi-claim lawsuit against the Company in multiple jurisdictions, including USA, UK and Italy. After that, the Company filed patent non-infringement and patent invalidity in those jurisdictions. As of February 14, 2012, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

- (2) In March 2010, Apple Inc. ("Apple") filed a lawsuit against the Company, H.T.C. (B.V.I.) Corp., HTC America, Inc. and Exeeda, Inc. ("the Company") concurrently with the U.S. International Trade Commission ("ITC") and U.S. District Court in Delaware ("Delaware court"), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing to and selling devices in the United States and damage compensation, respectively. The Company, subsequently filed ITC investigation and filed counterclaim with Delaware court against Apple for patent infringements. The Company requested ITC and Delaware court to prevent Apple from importing and selling devices in the United States and damage compensation, respectively.

In November, 2011, the Company acquired the business operation and ownership of patent portfolio of S3 Graphics Co., Ltd. ("S3 Graphics"). In July, 2011, Apple filed another ITC investigation and a companion district court case in Delaware against the Company alleging patent infringement (ITC No. 337-TA-797). In August 2011, the Company filed another ITC investigation and a companion district court case in Delaware against Apple alleging patent infringement (ITC No. 337-TA-808) against Apple. On September 22, 2011, S3 Graphics filed another ITC investigation (ITC No. 337-TA-813) and a companion district court case in Delaware against Apple alleging infringement of its patents.

In December 2011, the Company received the notice of ITC committee's final determination in the Apple vs. HTC case, (ITC No. 337-TA-710). Apple originally asserted 10 of its patents against the Company in March 2010, and the ITC Committee ruled that the Company infringed on 1 patent. Apple has appealed and the Company is implementing workaround into new products, so business is not affected in the US. As for the investigation filed by the Company against Apple (ITC No. 337-TA-721), on October 17, 2011, the ITC judge issued his initial determination and ruled that Apple does not infringe the 4 asserted patents owned by the Company. The Company has appealed.

As of February 14, 2012, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

- (3) In March 2008, Flashpoint Technology, Inc., a U.S. entity, sued the Company and HTC America ("the Company") with 10 patents in the District Court of Delaware alleging the Company infringed its patents and seeking damage compensation. The Company filed re-exams and the district court case was stayed pending the result of the re-examination from U.S. Patent and Trademark Office on November 2009, and is still stayed.

In May 2010, Flashpoint filed an ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. In November 2011, the ITC Committee issued its Final Determination and ruled that the Company does not infringe patents owned by Flashpoint.

- (4) The Company had shared lawsuit-related costs on the basis of common benefits and agreements between its vendors and customers. For 2011, companies that the Company shared lawsuit-related costs with included VIA Technologies Inc. and its subsidiaries.
- (5) On the basis of its past experience and consultations with its legal counsel, the Company has evaluated the possible effects of the above lawsuits on its business and financial condition as well as on relevant matters.

### 2. Construction of the Taipei R&D Headquarters

In September 2009, the Company's board of directors resolved to build the Taipei R&D headquarters 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 February 2012 (Note 15 has more information).

### 3. Other

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31			
	2010		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<b>Financial assets</b>				
<b>Monetary items</b>				
USD	\$2,561,948	29.13	\$3,018,210	30.28
EUR	733,365	38.92	485,148	39.19
GBP	91,604	45.19	44,226	46.73
<b>Investments accounted for by the equity method</b>				
USD	36,284	29.13	412,799	30.28
SGD	338,120	22.73	996,626	23.32
<b>Financial liabilities</b>				
<b>Monetary items</b>				
USD	2,845,961	29.13	3,266,412	30.28
EUR	762,692	38.92	590,266	39.19
GBP	94,537	45.19	56,572	46.73

### (30) SEGMENT DISCLOSURES

The Company is organized and managed as a single reportable business segment. The Company's operations are mainly related to the research, design, manufacture and sales of smart handheld devices.

Selected financial information is as follows:

#### 1. Geographical Areas

The Company's noncurrent assets located in an individual foreign country were immaterial. Revenues from domestic and overseas customers for 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Taiwan	\$7,559,367	\$20,138,095	\$665,085
Country W	134,222,005	206,306,376	6,813,514
Country X	23,499,741	30,778,220	1,016,487
Country Y	5,404,707	20,871,641	689,311
Country Z	18,451,758	20,495,340	676,883
Others	85,909,376	156,489,514	5,168,252
	<u>\$275,046,954</u>	<u>\$455,079,186</u>	<u>\$15,029,532</u>

#### 2. Major Customers

Revenues in 2010 and 2011 that were 10 percent or more from transactions with a single external customer were as follows:

Customer	2010		2011
	NT\$	NT\$	US\$ (Note 3)
A	\$86,510,154	\$201,020,041	\$6,638,926

## 5. 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, 2010 and 2011, 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, 2010 and 2011, 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 2011 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.

February 14, 2012

#### 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.

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2011

(In Thousands, Except Par Value)

ASSETS	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (Notes 2 and 5)	\$74,462,861	\$87,501,508	\$2,889,841
Financial assets at fair value through profit or loss (Notes 2, 6 and 26)	450,276	256,868	8,483
Available-for-sale financial assets - current (Notes 2 and 7)	441,948	736,031	24,308
Notes receivable, net (Notes 2 and 8)	-	755,450	24,950
Accounts receivable, net (Notes 2, 8 and 27)	61,614,355	63,964,341	2,112,499
Other current financial assets (Notes 9 and 27)	783,540	1,405,911	46,432
Inventories (Notes 2 and 10)	26,413,747	28,430,590	938,954
Prepayments (Note 11)	2,620,738	7,075,231	233,668
Deferred income tax assets (Notes 2 and 24)	1,051,196	2,246,196	74,183
Other current assets	767,825	1,055,480	34,859
<b>Total current assets</b>	<b>168,606,486</b>	<b>193,427,606</b>	<b>6,388,177</b>
<b>LONG-TERM INVESTMENTS</b>			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	538	279	9
Held-to-maturity financial assets - noncurrent (Notes 2 and 12)	207,946	204,597	6,757
Financial assets carried at cost (Notes 2 and 13)	1,023,661	3,408,654	112,575
Investments accounted for by the equity method (Notes 2 and 14)	-	71,732	2,369
<b>Total long-term investments</b>	<b>1,232,145</b>	<b>3,685,262</b>	<b>121,710</b>
<b>PROPERTIES (Notes 2, 15 and 27)</b>			
Cost			
Land	5,862,076	7,614,167	251,467
Buildings and structures	5,005,642	5,999,807	198,151
Machinery and equipment	7,236,349	11,298,070	373,132
Molding equipment	172,632	172,632	5,701
Computer equipment	474,299	765,177	25,271
Transportation equipment	7,378	7,710	255
Furniture and fixtures	245,041	368,025	12,154
Leased assets	5,934	6,730	222
Leasehold improvements	305,073	463,581	15,310
<b>Total cost</b>	<b>19,314,424</b>	<b>26,695,899</b>	<b>881,663</b>
Less: Accumulated depreciation	(5,801,233)	(7,314,359)	(241,565)
Prepayments for construction-in-progress and equipment-in-transit	511,138	2,130,938	70,377
<b>Properties, net</b>	<b>14,024,329</b>	<b>21,512,478</b>	<b>710,475</b>
<b>INTANGIBLE ASSETS (Notes 2 and 16)</b>			
Patents	208,581	11,152,098	368,311
Goodwill	497,803	10,812,564	357,098
Deferred pension cost	416	342	11
Other	228,850	595,784	19,677
<b>Total intangible assets</b>	<b>935,650</b>	<b>22,560,788</b>	<b>745,097</b>
<b>OTHER ASSETS</b>			
Assets leased to others	50,828	-	-
Refundable deposits	150,860	185,306	6,120
Deferred charges (Note 2)	243,249	763,516	25,216
Deferred income tax assets (Notes 2 and 24)	2,366,488	3,675,521	121,388
Restricted assets (Note 28)	95,688	68,700	2,269
Other (Notes 2, 11 and 20)	2,676,021	8,712,949	287,756
<b>Total other assets</b>	<b>5,583,134</b>	<b>13,405,992</b>	<b>442,749</b>
<b>TOTAL</b>	<b>\$190,381,744</b>	<b>\$254,592,126</b>	<b>\$8,408,208</b>

LIABILITIES AND STOCKHOLDERS' EQUITY	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
<b>CURRENT LIABILITIES</b>			
Notes and accounts payable (Note 27)	\$61,974,657	\$77,268,293	\$2,551,878
Income tax payable (Notes 2 and 24)	6,809,417	10,570,682	349,109
Accrued expenses (Notes 17 and 27)	33,426,028	46,171,290	1,524,862
Payable for purchase of equipment	441,976	812,240	26,825
Long-term liabilities - current portion (Note 19)	12,188	-	-
Other current liabilities (Notes 2 and 18)	12,976,837	17,307,355	571,596
<b>Total current liabilities</b>	<b>115,641,103</b>	<b>152,129,860</b>	<b>5,024,270</b>
<b>LONG-TERM LIABILITIES</b>			
Long-term bank loans, net of current portion (Note 19)	12,188	-	-
<b>OTHER LIABILITIES</b>			
Guarantee deposits received	13,959	42,946	1,418
<b>Total liabilities</b>	<b>115,667,250</b>	<b>152,172,806</b>	<b>5,025,688</b>
<b>STOCKHOLDERS' EQUITY (Note 21)</b>			
Capital stock - NT\$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 817,653 thousand shares in 2010 and 852,052 thousand shares in 2011			
Common stock	8,176,532	8,520,521	281,400
Capital surplus			
Additional paid-in capital - issuance of shares in excess of par	10,777,623	14,809,608	489,105
Treasury stock transactions	-	1,730,458	57,150
Long-term equity investments	18,411	18,037	596
Merger	24,710	24,423	807
Expired stock options	-	37,068	1,224
Retained earnings			
Legal reserve	10,273,674	10,273,674	339,300
Special reserve	-	580,856	19,184
Accumulated earnings	52,876,892	75,762,315	2,502,141
Other equity			
Cumulative translation adjustments (Note 2)	(579,849)	32,134	1,061
Net loss not recognized as pension cost	(121)	(293)	(10)
Unrealized valuation (loss) gain on financial instruments (Notes 2 and 26)	(885)	2,939	97
Treasury stock (Note 22)	(6,852,493)	(10,365,144)	(342,321)
Equity attributable to stockholders of the parent	74,714,494	101,426,596	3,349,734
<b>MINORITY INTEREST</b>			
	-	992,724	32,786
<b>Total stockholders' equity</b>	<b>74,714,494</b>	<b>102,419,320</b>	<b>3,382,520</b>
<b>TOTAL</b>	<b>\$190,381,744</b>	<b>\$254,592,126</b>	<b>\$8,408,208</b>

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

## CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2011

(In Thousands, Except Earnings Per Share)

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 27)	\$278,761,244	\$465,794,773	\$15,383,427
COST OF REVENUES (Notes 2, 10, 23 and 27)	194,892,505	333,997,246	11,030,656
GROSS PROFIT	83,868,739	131,797,527	4,352,771
OPERATING EXPENSES (Notes 23 and 27)			
Selling and marketing	21,757,601	40,422,905	1,335,014
General and administrative	5,038,543	6,626,010	218,832
Research and development	12,940,014	15,960,845	527,126
Total operating expenses	39,736,158	63,009,760	2,080,972
OPERATING INCOME	44,132,581	68,787,767	2,271,799
NONOPERATING INCOME AND GAINS			
Interest income	313,888	701,724	23,175
Gain on disposal of properties	879	-	-
Gains on sale of investments	3,001	29	1
Exchange gain (Note 2)	-	1,520,643	50,221
Rental revenues (Note 27)	6,486	8,772	290
Valuation gains on financial instruments, net (Notes 2 and 6)	450,276	256,868	8,483
Other	368,414	295,228	9,750
Total nonoperating income and gains	1,142,944	2,783,264	91,920
NONOPERATING EXPENSES AND LOSSES			
Interest expense	3,562	30,979	1,023
Loss on equity-method investments (Notes 2 and 14)	-	3,961	131
Losses on disposal of properties	13,066	465	15
Exchange loss (Note 2)	214,679	-	-
Impairment losses (Notes 2, 13 and 16)	32,771	18,608	615
Other	47,059	93,331	3,082
Total nonoperating expenses and losses	311,137	147,344	4,866
INCOME BEFORE INCOME TAX	44,964,388	71,423,687	2,358,853
INCOME TAX (Notes 2 and 24)	(5,449,544)	(9,124,639)	(301,352)
NET INCOME	\$39,514,844	\$62,299,048	\$2,057,501
ATTRIBUTABLE TO			
Stockholders of the parent	\$39,533,600	\$61,975,796	\$2,046,824
Minority interest	(18,756)	323,252	10,677
	\$39,514,844	\$62,299,048	\$2,057,501

(In Thousands, Except Earnings Per Share)

	2010		2011			
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax		
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 25)	\$51.98	\$46.18	\$82.63	\$2.73	\$73.32	\$2.42
DILUTED EARNINGS PER SHARE (Note 25)	\$51.36	\$45.64	\$81.05	\$2.68	\$71.91	\$2.37

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

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2010 AND 2011

(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus				Retained Earnings			Other Equity			Total		
	Issued and Outstanding Common Stock	Issuance of Shares in Excess of Par	Treasury Stock Transaction	Long-term Equity Investments	Merger	Expired Stock Options	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Gain (Loss) on Financial Instruments		Treasury Stock	Minority Interest
BALANCE, JANUARY 1, 2010	\$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	8,176,532	10,777,623	-	18,411	24,710	-	10,273,674	-	52,876,892	(579,849)	(121)	(885)	(6,852,493)	-	74,714,494
Appropriation of the 2010 net earnings															
Stock dividends	403,934	-	-	-	-	-	-	(403,934)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	580,856	(580,856)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(29,891,089)	-	-	-	-	-	-	(29,891,089)
Transfer of employee bonuses to common stock	40,055	4,205,796	-	-	-	-	-	-	-	-	-	-	-	-	4,245,851
Net income in 2011	-	-	-	-	-	-	-	61,975,796	-	-	-	-	-	323,252	62,299,048
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	611,983	-	-	-	-	-	611,983
Adjustment due to the movement of investees' other equity under equity method	-	-	-	-	-	-	-	-	-	(172)	-	-	-	-	(172)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	3,824	-	-	3,824
Adjustment due to changes in ownership percentage in investees and the movement of investees' other equity under equity method	-	-	-	(374)	-	-	-	-	-	-	-	-	-	-	(374)
Transfer of treasury stock to employees	-	-	1,750,767	-	-	37,503	-	-	-	-	-	-	4,113,821	-	5,902,091
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(16,135,808)	-	(16,135,808)
Retirement of treasury stock	(100,000)	(173,811)	(20,309)	-	(287)	(435)	-	(8,214,494)	-	-	-	-	8,509,336	-	-
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	669,472	669,472
BALANCE, DECEMBER 31, 2011	\$8,520,521	\$14,809,608	\$1,730,458	\$18,037	\$24,423	\$37,068	\$10,273,674	\$580,856	\$75,762,315	\$32,134	\$(293)	\$2,939	\$(10,365,144)	\$992,724	\$102,419,320
BALANCE, JANUARY 1, 2011	\$270,040	\$355,944	\$-	\$608	\$816	\$-	\$339,300	\$-	\$1,746,323	\$(19,150)	\$(4)	\$(29)	\$(226,312)	\$-	\$2,467,536
Appropriation of the 2010 net earnings															
Stock dividends	13,340	-	-	-	-	-	-	(13,340)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	19,184	(19,184)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(987,189)	-	-	-	-	-	-	(987,189)
Transfer of employee bonuses to common stock	1,323	138,901	-	-	-	-	-	-	-	-	-	-	-	-	140,224
Net income in 2011	-	-	-	-	-	-	-	2,046,824	-	-	-	-	-	10,677	2,057,501
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	20,211	-	-	-	-	-	20,211
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	126	-	-	126
Adjustment due to the movement of investees' other equity under equity method	-	-	-	-	-	-	-	-	-	(6)	-	-	-	-	(6)
Adjustment due to changes in ownership percentage of investees other equity under equity method	-	-	-	(12)	-	-	-	-	-	-	-	-	-	-	(12)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(532,904)	-	(532,904)
Transfer of treasury stock to employees	-	-	57,821	-	-	1,239	-	-	-	-	-	-	135,864	-	194,924
Retirement of treasury stock	(3,303)	(5,740)	(671)	-	(9)	(15)	-	(271,293)	-	-	-	-	281,031	-	-
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	22,109	22,109
BALANCE, DECEMBER 31, 2011	\$281,400	\$489,105	\$57,150	\$596	\$807	\$1,224	\$339,300	\$19,184	\$2,502,141	\$1,061	\$(10)	\$97	\$(342,321)	\$32,786	\$3,382,520

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2011

(In Thousands)

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$39,514,844	\$62,299,048	\$2,057,501
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	905,138	1,564,225	51,660
Amortization	97,196	836,611	27,630
Compensation cost recognized for the transfer of treasury stock to employees	-	1,788,270	59,060
Amortization of premium on financial assets	385	3,349	111
Prepaid pension cost	(21,364)	(24,878)	(822)
Loss on equity-method investments	-	3,961	131
Loss on disposal of properties and deferred charges, net	12,187	465	15
Transfer of properties to expenses	1,151	324	11
Gains on sale of investments, net	(3,001)	(29)	(1)
Impairment losses on financial assets carried at cost and goodwill	32,771	18,608	615
Deferred income tax assets	(1,537,739)	(2,504,033)	(82,699)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(432,144)	229,037	7,564
Notes receivable	-	(755,450)	(24,950)
Accounts receivable	(34,472,524)	(1,368,605)	(45,200)
Inventories	(20,435,168)	(1,995,952)	(65,919)
Prepayments	683,128	(4,402,607)	(145,401)
Other current assets	(582,339)	(287,655)	(9,500)
Other current financial assets	(547,932)	(622,371)	(20,555)
Other assets - other	(640,985)	(6,012,050)	(198,555)
Notes and accounts payable	37,129,824	15,167,466	500,924
Income tax payable	2,538,408	3,751,382	123,894
Accrued expenses	18,413,894	16,823,509	555,616
Other current liabilities	5,392,059	3,994,726	131,931
Net cash provided by operating activities	46,047,789	88,507,351	2,923,061
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of available-for-sale financial assets	(3,551,180)	(490,000)	(16,183)
Proceeds of the sale of available-for-sale financial assets	5,610,175	200,029	6,606
Purchase of held-to-maturity financial assets	(208,331)	-	-
Increase in financial assets carried at cost	(286,876)	(2,300,272)	(75,969)
Acquisition of investments accounted for by the equity method	-	(76,214)	(2,517)
Acquisition of subsidiaries	(78,272)	(20,210,729)	(667,483)
Purchase of properties and assets leased to others	(4,990,996)	(8,411,182)	(277,789)
Proceeds of the sale of properties and deferred charges	20,064	580	19
Increase in refundable deposits	(21,817)	(34,309)	(1,133)
Increase in deferred charges	(90,721)	(574,267)	(18,966)
Decrease in restricted assets	10,564	26,988	891
Increase in intangible assets	(220,943)	(2,294,360)	(75,774)
Net cash used in investing activities	(3,808,333)	(34,163,736)	(1,128,298)

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in short-term borrowings	\$(42,326)	\$-	\$-
Decrease in long-term bank loans	(22,499)	(24,376)	(805)
Increase in guarantee deposits received	12,749	28,987	958
Cash dividends	(20,122,332)	(29,891,089)	(987,189)
Purchase of treasury stock	(11,686,667)	(16,135,808)	(532,904)
Transfer of treasury stock to employees	-	4,113,821	135,864
(Decrease) increase in minority interest	(15,451)	669,472	22,109
Net cash used in financing activities	(31,876,526)	(41,238,993)	(1,361,967)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(538,359)	(65,975)	(2,180)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,824,571	13,038,647	430,616
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	64,638,290	74,462,861	2,459,225
CASH AND CASH EQUIVALENTS, END OF YEAR	\$74,462,861	\$87,501,508	\$2,889,841
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid during the year			
Interest	\$2,386	\$32,197	\$1,063
Income tax	\$4,448,828	\$7,877,290	\$260,157
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Transfer of retained earnings to common stock	\$386,968	\$403,934	\$13,340
Transfer of assets leased to others to properties	\$47,813	\$50,828	\$1,679
Retirement of treasury stock	\$4,834,174	\$8,509,336	\$281,031
Transfer of stock bonuses to employees to common stock and additional paid-in capital	\$1,943,694	\$4,245,851	\$140,224
<b>PURCHASE OF PROPERTIES AND ASSETS LEASED TO OTHERS</b>			
Purchase cost of properties and assets leased to others	\$5,278,345	\$8,781,446	\$290,017
Increase in payable for purchase of equipment	(288,425)	(370,264)	(12,228)
Decrease in lease payable	1,076	-	-
Cash paid for the purchase of properties and assets leased to others	\$4,990,996	\$8,411,182	\$277,789
<b>ACQUISITION OF SUBSIDIARIES</b>			
Expected net cash outflow on the acquisition of subsidiaries	\$245,927	\$20,303,485	\$670,547
Increase in other payable	(167,655)	(92,756)	(3,064)
Cash paid for acquisition of subsidiaries	\$78,272	\$20,210,729	\$667,483

(Continued)

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

(Continued)

HTC CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2010 AND 2011

(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 12,575 and 17,413 employees as of December 31, 2010 and 2011, respectively.

**(2) SIGNIFICANT ACCOUNTING POLICIES**

The 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"). Significant accounting policies are summarized as follows:

**1. 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.

**2. The consolidated entities as of December 31, 2010 and 2011 were as follows:**

Investor	Investee	Company Type/ Main Businesses	% of Ownership		Remark on Investee
			2010	2011	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	100.00	100.00	Incorporated in August 2000
	BandRich Inc.	Design, manufacture and sale of electronic devices	18.08	18.08	Incorporated in April 2006, HTC lost significant influence in July 2010
	Communication Global Certification Inc.	Testing and certification services	100.00	100.00	Investment received in January 2007
	High Tech Computer Asia Pacific Pte. Ltd.	International holding, marketing, repair and after-sales services	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
	HTC Holding Cooperatief U.A.	International holding company	1.00	1.00	Incorporated in October 2009
	Huada Digital Corporation	Software services	100.00	50.00	Incorporated in January 2010; change in ownership percentage in October 2011
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	-	100.00	Incorporated in August 2011
H.T.C. (B.V.I.) Corp.	HTC EUROPE CO., LTD.	Marketing, repair and after-sales services	-	-	Incorporated in July 2003 and sold to an indirect subsidiary of HTC in February 2010 for Company reorganization
	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 investment received in July 2005
	HTC NIPPON Corporation	Marketing, repair and after-sales services	-	-	Incorporated in March 2006, and sold to an indirect subsidiary of HTC in April 2010 for Company reorganization

(Continued)

Investor	Investee	Company Type/ Main Businesses	% of Ownership		Remark on Investee	
			2010	2011		
H.T.C. (B.V.I.) Corp.	HTC BRASIL	Marketing, repair and after-sales services	-	-	Incorporated in October 2006, and sold to an indirect subsidiary of HTC in February 2010 for Company reorganization	
	High Tech Computer Singapore Pte. Ltd.	Marketing, repair and after-sales services	-	-	Incorporated in July 2007 and merged with High Tech Computer Asia Pacific Pte. Ltd. in February 2010, with the investor as survivor entity	
	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	
	HTC (Thailand) Limited	"	100.00	100.00	Incorporated in November 2007 and investment received in September 2008	
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	-	-	Incorporated in January 2007; investment received in July 2008; and sold to an indirect subsidiary of HTC in February 2010	
	HTC Malaysia Sdn. Bhd.	Marketing, repair and after-sales services	100.00	100.00	Incorporated in July 2008 and investment received in January 2009	
High Tech Computer Asia Pacific Pte. Ltd.	HTC Innovation Limited	"	100.00	100.00	Incorporated in January 2009	
	HTC Communication Co., Ltd.	Sale of smart handheld devices	100.00	100.00	Incorporated in December 2008 and investment received in March 2009	
	HTC Communication Technologies (SH)	Design, research and development of application software	-	100.00	Incorporated in November 2011	
	HTC America Inc.	Sale of smart handheld devices	-	-	Incorporated in January 2003; was acquired from a direct subsidiary of HTC in November 2009 and then sold to an indirect subsidiary of HTC in April 2010; both transactions were for the Company's reorganization	
	One & Company Design, Inc.	Design, research and development of application software	-	-	Investment received in October 2008; was acquired from a direct subsidiary of HTC in November 2009 and then sold to an indirect subsidiary of HTC in April 2010; both transactions were for the Company's reorganization	
	HTC HK, Limited	International holding, marketing, repair and after-sales services	100.00	100.00	Incorporated in August 2006 and was acquired from HTC in December 2009 for Company reorganization	
	HTC Holding Cooperatief U.A.	International holding company	99.00	99.00	Incorporated in October 2009	
	HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	-	100.00	Investment received in November 2011	
	High Tech Computer Singapore Pte. Ltd.	HTC India Private Ltd.	Marketing, repair and after-sales services	-	-	Incorporated in January 2008 and sold to an affiliate in February 2010 for Company reorganization
	HTC Belgium BVBA/SPRL	Marketing, repair and after-sales services	-	-	Incorporated in October 2006 and sold to an affiliate in March 2010 for Company reorganization	
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Repair and after-sales services	100.00	100.00	Incorporated in July 2007 and was acquired from an affiliate in December 2009	
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2007; investment received in July 2008; and was acquired from a direct subsidiary of HTC in February 2010 for Company reorganization	
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	Incorporated in October 2009	
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	Incorporated in January 2008 and was acquired from an indirect subsidiary of HTC in February 2010 for Company reorganization	

(Continued)

Investor	Investee	Company Type/ Main Businesses	% of Ownership		Remark on Investee
			2010	2011	
HTC Holding Cooperatief U.A.	HTC South Eastern Europe Limited Liability Company	Marketing, repair and after-sales services	0.67	0.67	Incorporated in June 2010
	HTC EUROPE CO., LTD.	Marketing, repair and after-sales services	100.00	100.00	Incorporated in July 2003 and was acquired from an affiliate for Company reorganization in February 2010
	HTC BRASIL	"	99.99	99.99	Incorporated in October 2006 and was acquired from an HTC subsidiary in February 2010 for Company reorganization
	HTC Belgium BVBA/SPRL	"	100.00	100.00	Incorporated in October 2006 and was acquired from an indirect subsidiary of HTC in March 2010 for Company reorganization
	HTC NIPPON Corporation	"	100.00	100.00	Incorporated in March 2006, and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization
	HTC FRANCE CORPORATION	"	100.00	100.00	Incorporated in April 2010
	HTC South Eastern Europe Limited Liability Company	"	99.33	99.33	Incorporated in June 2010
HTC Netherlands B.V.	HTC Nordic ApS	"	100.00	100.00	Incorporated in July 2010, and was acquired from an indirect investee of HTC in October 2010 for Company reorganization
	HTC Italia SRL	"	100.00	100.00	Incorporated in February 2007 and was acquired from an indirect investee of HTC in October 2010 Company reorganization
	HTC Germany GmbH	"	100.00	100.00	Incorporated in October 2010
	HTC Iberia, S.L.	"	100.00	100.00	Incorporated in October 2010
	HTC Poland sp. z.o.o.	"	100.00	100.00	Incorporated in October 2010
	Saffron Media Group Ltd.	Design, research and development of application software	-	100.00	Investment received in January 2011
	HTC Communication Canada, Ltd.	Marketing, repair and after-sales services	-	100.00	Incorporated in April 2011
	HTC Luxembourg S.a.r.l.	Online/download media services	-	100.00	Incorporated in May 2011
	HTC Norway AS	Marketing, repair and after-sales services	-	100.00	Incorporated in August 2011
	HTC RUS LLC	"	-	100.00	Incorporated in June 2011, and investment received in August 2011.
	HTC Communication Sweden AB	"	-	100.00	Incorporated in September 2011
HTC Belgium BVBA/SPRL	HTC Italia SRL	Marketing, repair and after-sales services	-	-	Incorporated in February 2007 and sold to an indirect subsidiary of HTC for the reorganization in October 2010
	HTC Nordic ApS	"	-	-	Incorporated in July 2010 and sold to an indirect subsidiary of HTC for the reorganization in October 2010
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	Incorporated in April 2010
HTC FRANCE Corporation	ABAXIA SAS	Design, research and development of application software	100.00	100.00	Investment received in July 2010
	HTC America Inc.	Sale of smart handheld devices	100.00	100.00	Incorporated in January 2003 and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization
	One & Company Design, Inc.	Design, research and development of application software	100.00	100.00	Investment received in October 2008, and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization
HTC America Holding Inc.	HTC America Innovation Inc.	"	100.00	100.00	Incorporated in April 2010, and investment received in October 2010
	HTC America Content Services, Inc.	Online/download media services	-	100.00	Incorporated in April 2011
	Dashwire, Inc.	Design, research and development of wireless connectivity software	-	100.00	Investment received in August 2011
	Beats Electronics, LLC	Design, research and development of audio technology	-	50.14	Investment received in October 2011

(Continued)

Investor	Investee	Company Type/ Main Businesses	% of Ownership		Remark on Investee
			2010	2011	
HTC America Holding Inc.	Inquisitive Minds, Inc.	Development and sale of digital education platform	-	100.00	Investment received in October 2011
ABAXIA SAS	HTC BLR	Design, research and development of application software	100.00	100.00	Investment received in July 2010
Saffron Media Group Ltd.	Saffron Digital Ltd.	Design, research and development of application software	-	100.00	Investment received in January 2011
	Saffron Digital Inc.	"	-	100.00	Investment received in January 2011

(Concluded)

The Company acquired all the shares issued by Huada Digital Corporation in January 2010 and ABAXIA SAS in July 2010. In July 2010, the Company lost its significant influence on BandRich Inc. The carrying values of the net assets of these companies as of the acquisition date or control loss date were as follows:

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

Note: Huada Digital Corporation ("Huada") was included in the consolidated financial statements beginning January 2010. Earlier, investment in Huada was booked under prepayments for long-term investments as of December 31, 2009.

The Company acquired Saffron Media Group Ltd. in January 2011 and Dashwire, Inc. in August 2011. In October 2011, the Company (a) acquired a portion of Beats Electronics, LLC and (b) acquired Inquisitive Minds, Inc. and (c) adjusted the share pricing terms of a certain share transaction agreement with One & Company Design, Inc. In November 2011, acquired S3 Graphics Co., Ltd. The carrying values of the net assets of these companies as of the acquisition date were as follows:

	Saffron Media Group Ltd.	Dashwire, Inc.	Beats Electronics, LLC	Inquisitive Minds, Inc.	S3 Graphics Co., Ltd.	One & Company Design, Inc.	Total	
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Cash on hand and in banks	\$18,945	\$8,860	\$118,400	\$2,031	\$-	\$-	\$148,236	\$4,896
Other current assets	161,622	2,756	925,409	-	-	-	1,089,787	35,992
Properties	8,629	1,247	5,862	567	-	-	16,305	538
Other assets	1,130	40,164	83,982	689	-	-	125,965	4,160
Current liabilities	(142,250)	(111,898)	(292,457)	(88)	-	-	(546,693)	(18,055)
Net assets	\$48,076	\$(58,871)	\$841,196	\$3,199	\$-	\$-	\$833,600	\$27,531
Cash consideration	\$1,393,717	\$480,905	\$9,102,096	\$360,370	\$9,033,450	\$81,183	\$20,451,721	\$675,443
Cash at the acquisition date	(18,945)	(8,860)	(118,400)	(2,031)	\$-	\$-	(148,236)	(4,896)
Net cash outflow on the acquisition of a subsidiary	\$1,374,772	\$472,045	\$8,983,696	\$358,339	\$9,033,450	\$81,183	\$20,303,485	\$670,547

### 3. Foreign Currencies

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

- Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- Stockholders' equity - at historical exchange rates;
- Dividends - at the exchange rate prevailing on the dividend declaration date; and
- 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 are 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.

#### 4. Accounting Estimates

Under the above guidelines, law 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, loss on pending litigations, product warranties, bonuses to employees, etc. Actual results may differ from these estimates.

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

#### 5. 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.

#### 6. 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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.

#### 7. 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are the same as those for 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.

#### 8. 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 collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by making an aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

As discussed in Note 4 to the financial statements, on January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." One of the main revisions is that the impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts

receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

1. Significant financial difficulty of the debtor;
2. Accounts receivable becoming overdue; or
3. It becoming probable that the debtor will enter into bankruptcy or financial reorganization.

Accounts receivable that are assessed not to be impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Company's past experience of collecting payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

#### 9. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and 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.

#### 10. 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.

## 11. 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.

## 12. 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.

The acquisition cost is allocated to the assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The fair value of the net identifiable assets acquired in excess of 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.

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.

## 13. Properties

Properties are stated at cost less accumulated depreciation and accumulated impairment losses. Borrowing costs directly attributable to the acquisition or construction of properties are capitalized as part of the cost of those assets. Major additions and improvements to properties are capitalized, while costs of repairs and maintenance are expensed currently.

Assets held under capital leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments; the corresponding liability is included in the balance sheet as obligations under capital leases. The interest included in lease payments is expensed when paid.

Depreciation is calculated on a straight-line basis over the estimated service lives of the assets plus one additional year for salvage value: buildings (including auxiliary equipment) - 3 to 50 years; machinery and equipment - 3 to 5 years; office equipment - 3 to 5 years; transportation equipment - 5 years; and leasehold improvements - 3 years.

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

The related cost (including revaluation increment) accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are derecognized from the balance sheet upon property 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.

## 14. 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 - "Intangible Assets," 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.

## 15. Deferred Charges

Deferred charges are telephone installation charges, computer software costs, deferred license fees and the right to the use of the land. Installation charges and computer software are amortized on a straight-line basis over 3 years; deferred license fees, over 10 years; and land use rights, over 50 years.

## 16. 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 and any remaining loss is charged to earnings.

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 first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount 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 on which the Company has significant influence but over which the Company has no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

## 17. 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.

## 18. Warranty Provisions

The Company provides warranty service for one year 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.

## 19. Provisions for Contingent Loss on Purchase Orders

The provision for contingent loss on purchase orders is estimated after taking into account the effects of changes in the product market, in inventory management and in the Company's purchases.

## 20. Product-related Costs

The cost of products consists of costs of goods sold, warranty expenses, contingent loss on purchase orders, and inventory write-downs and reversal of these write-downs.

## 21. 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.

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

## 22. Income Tax

The Company applies the intra-year and inter-year allocation methods to its income tax, whereby (1) a portion of income tax expense is allocated to the cumulative effect of changes in accounting principles or charged or credited directly to stockholders' equity; 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 income 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.

If the Company can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred income tax liability or asset is not recognized.

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.

## 23. Stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under Statement of Financial Accounting Standards No. 39 - "Share-based Payment." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.



## 24. 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.

## 25. Reclassifications

Certain 2010 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the year ended December 31, 2011.

## (3) TRANSLATION INTO U.S. DOLLARS

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2011 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$30.279 to US\$1.00 quoted by Reuters on December 31, 2011. 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) ACCOUNTING CHANGES

### 1. Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms

of obligations. This accounting change had no material effect on the Company's consolidated financial statements as of and for the year ended December 31, 2011.

### 2. Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41 - "Operating Segments." The requirements of the statement are based on the information about the components of the Company that management uses to make decisions about operating matters. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20 - "Segment Reporting." For this accounting change, the Company restated the segment information as of and for the year ended December 31, 2010 to conform to the disclosures as of and for the year ended December 31, 2011.

## (5) CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Cash on hand	\$4,304	\$6,436	\$212	
Cash in banks	22,343,340	28,207,009	931,570	
Time deposits	52,115,217	59,288,063	1,958,059	
	<u>\$74,462,861</u>	<u>\$87,501,508</u>	<u>\$2,889,841</u>	

On time deposits, interest rates ranged from 0.14% to 1.50% and from 0.15% to 1.345% as of December 31, 2010 and 2011, respectively.

## (6) 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, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Derivatives - financial assets				
Exchange contracts	\$450,276	\$256,868	\$8,483	

The Company had derivative transactions in 2010 and 2011 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 2010 and 2011. Outstanding forward exchange contracts as of December 31, 2010 and 2011 were as follows:

## Forward Exchange Contracts

Buy/Sell	Currency	Settlement Period/Date	2010	
			Contract Amount	
Buy	USD/CAD	2011.01.26	USD	250
Buy	USD/JPY	2011.01.12~2011.02.23	USD	18,187
Sell	EUR/USD	2011.01.05~2011.03.18	EUR	531,000
Sell	GBP/USD	2011.01.12~2011.03.25	GBP	57,400
Sell	USD/NTD	2011.01.03~2011.01.31	USD	447,000

Buy/Sell	Currency	Settlement Period/Date	2011	
			Contract Amount	
Buy	USD/CAD	2012.01.11~2012.02.22	USD	28,010
Buy	USD/RMB	2012.01.04~2012.01.31	USD	105,000
Sell	EUR/USD	2012.01.04~2012.03.30	EUR	339,000
Sell	GBP/USD	2012.01.11~2012.02.22	GBP	17,100

Net gain on derivative financial instruments in 2010 was NT\$759,889 thousand, including a realized settlement gain of NT\$309,613 thousand and a valuation gain of NT\$450,276 thousand.

Net gain on derivative financial instruments in 2011 was NT\$172,501 thousand (US\$5,697 thousand), including a realized settlement loss of NT\$84,367 thousand (US\$2,786 thousand) and a valuation gain of NT\$256,868 thousand (US\$8,483 thousand). Note 26 has more information.

## (7) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Mutual funds	\$441,948	\$736,031	\$24,308	
Domestic quoted stocks	538	279	9	
Less: Current portion	(441,948)	(736,031)	(24,308)	
	<u>\$538</u>	<u>\$279</u>	<u>\$9</u>	

## (8) NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Notes receivable	\$-	\$755,450	\$24,950	
Accounts receivable	62,620,703	65,518,876	2,163,839	
Accounts receivable from related parties	2,143	473	16	
Less: Allowance for doubtful accounts	(1,008,491)	(1,555,008)	(51,356)	
	<u>\$61,614,355</u>	<u>\$64,719,791</u>	<u>\$2,137,449</u>	

## (9) OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Other receivables	\$747,983	\$1,129,204	\$37,293	
Agency payments	22,139	249,644	8,245	
Interest receivables	11,376	23,261	768	
Others	2,042	3,802	126	
	<u>\$783,540</u>	<u>\$1,405,911</u>	<u>\$46,432</u>	

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

## (10) INVENTORIES

Inventories as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Finished goods	\$1,859,010	\$2,189,984	\$72,327	
Work-in-process	6,707,423	8,868,137	292,881	
Raw materials	13,075,800	17,251,140	569,739	
Inventory in transit	4,771,514	121,329	4,007	
	<u>\$26,413,747</u>	<u>\$28,430,590</u>	<u>\$938,954</u>	

As of December 31, 2010 and 2011, the allowances for inventory devaluation were NT\$3,535,521 thousand and NT\$4,930,857 thousand (US\$162,847 thousand), respectively.

The write-down of inventories to their net realizable value, which amounted to NT\$2,686,168 thousand in 2010 and NT\$3,381,137 thousand and (US\$111,666 thousand) in 2011, was recognized as cost of sales.

## (11) PREPAYMENTS

Prepayments as of December 31, 2010 and 2011 were as follows:

	2010		2011	
	NT\$	NT\$	US\$ (Note 3)	
Royalty	\$1,837,341	\$4,828,102	\$159,454	
Prepayments to suppliers	38,990	1,248,922	41,247	
Net input VAT	361,152	320,544	10,586	
Software and hardware maintenance	115,425	311,416	10,285	
Molding equipment	91,058	188,242	6,217	
Marketing	66,295	43,200	1,427	
Rent	40,812	15,488	511	
Others	69,665	119,317	3,941	
	<u>\$2,620,738</u>	<u>\$7,075,231</u>	<u>\$233,668</u>	

1. Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of December 31, 2010 and 2011, the noncurrent prepayments of NT\$2,484,156 thousand and NT\$6,489,046 thousand and (US\$214,309 thousand), respectively, were classified as other assets (Note 30 has more information).



- Prepayments to suppliers were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of December 31, 2011, noncurrent prepayments of NT\$2,007,160 thousand (US\$66,289 thousand) had been classified as other assets.
- Prepayments for others were primarily for travel and insurance expenses.

## (12) HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets as of December 31, 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Corporate bonds	\$207,946	\$204,597	\$6,757

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

## (13) FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of December 31, 2010 and 2011 consisted of domestic unquoted stocks of the following companies:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$500,000	\$500,000	\$16,513
Answer Online, Inc.	1,192	1,192	39
BandRich Inc.	15,861	15,861	524
SoundHound Inc.	58,260	67,441	2,227
GSUO Inc.	145,650	242,232	8,000
Felicis Ventures II LP	-	68,128	2,250
WI Harper Fund VII	-	47,689	1,575
NETQIN MOBILE Inc.	72,825	75,698	2,500
Luminous Optical Technology Co., Ltd.	183,000	183,000	6,044
OnLive, Inc.	-	1,211,160	40,000
KKBOX Inc.	-	302,790	10,000
TransLink Capital Partners II, L.P.	-	99,921	3,300
Shanghai F-road Commercial Co., Ltd.	-	166,555	5,501
Primavera Capital (Cayman) Fund L.L.P.	-	428,179	14,141
Prepayments for long-term investments	48,065	-	-
	1,024,853	3,409,846	112,614
Less: Accumulated impairment loss	(1,192)	(1,192)	(39)
	\$1,023,661	\$3,408,654	\$112,575

- In January 2007, the Company acquired 10% equity interest in Hua-Chuang Automobile Information Technical Center Co., Ltd. for NT\$500,000 thousand.
- 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 2010, the Company determined that the recoverable amount of this investment was less than its carrying amount and thus recognized an impairment loss of NT\$1,192 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. After that, the Company's ownership percentage declined from 92% to 18.08% and lost its significant influence on this investee. When the Company's ownership percentage changed in July 2010, the Company transferred this investment to "financial assets carried at cost" using book value.
- In 2009, the Company invested US\$2,000 thousand in SoundHound Inc. (known as Melodis Corporation until May 2010). The Company increased this investment by US\$227 thousand in 2011. As of December 31, 2011, the Company's investment in SoundHound Inc. had amounted to US\$2,227 thousand (NT\$67,441 thousand), and the ownership percentage was 4.37%.
- In 2010, the Company invested US\$5,000 thousand in GSUO Inc. The Company increased this investment by US\$3,000 thousand in 2011. As of December 31, 2011, the Company's investment in GSUO Inc. had amounted to US\$8,000 thousand (NT\$242,232 thousand), and the ownership percentage was 16.61%.

- In 2010, the Company invested US\$750 thousand in Felicis Ventures II LP. But because the registration of this investment had not been completed as of December 31, 2010, an amount of US\$750 (NT\$23,220 thousand) was temporarily accounted for under "prepayments for long-term investments." When the registration was completed in 2011, this investment was transferred to financial assets carried at cost. The Company increased this investment by US\$1,500 thousand in 2011. As of December 31, 2011, the Company's investment in Felicis Ventures II LP had amounted to US\$2,250 thousand (NT\$68,128 thousand).
- In 2010, the Company invested US\$900 thousand in WI Harper Fund VII. Because the registration of this investment had not been completed as of December 31, 2010, an amount of US\$900 (NT\$28,134 thousand) was temporarily accounted for under "prepayments for long-term investments." When the registration was completed in 2011, this investment was transferred to financial assets carried at cost. The Company increased this investment by US\$675 thousand in 2011. As of December 31, 2011, the Company's investment had amounted to US\$1,575 thousand (NT\$47,689 thousand).

- In December 2010, the Company acquired 1.60% equity interest in NETQIN MOBILE Inc. for US\$2,500 thousand.
- In December 2010, the Company acquired 10.02% equity interest in Luminous Optical Technology Co., Ltd. for NT\$183,000 thousand.
- In February 2011, the Company acquired 3.79% equity interest in OnLive, Inc. for US\$40,000 thousand (NT\$1,211,160 thousand).
- In March 2011, the Company acquired 11.11% equity interest in KKBOX Inc. for US\$10,000 thousand (NT\$302,790 thousand).

- In 2011, the Company invested US\$3,300 thousand (NT\$99,921 thousand) in TransLink Capital Partners II, L.P.

- In May 2011, the Company acquired 17.70% equity interest in Shanghai F-road Commercial Co., Ltd. for US\$5,500 thousand (NT\$166,555 thousand).

- In 2011, the Company invested US\$14,141 thousand (NT\$428,179 thousand) in Primavera Capital (Cayman) Fund L.L.P.

- 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.

## (14) INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

The investment accounted for by the equity method as of December 31, 2010 and 2011 was as follows:

	2010		2011				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
			NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Vitamin D Inc.	\$-	\$-	\$-	\$-	\$-	\$-	
SYNCTV Corporation	-	-	76,214	2,500	71,732	2,369	20
	\$-	\$-	\$76,214	\$2,500	\$71,732	\$2,369	

- In April 2008, the Company made a bond 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 accounted for this investment by the equity method. After that, the Company's ownership percentage declined from 27.27% to 25.59%, and there was a capital surplus - long-term equity investments of NT\$1,689 thousand in 2008 and NT\$671 thousand in 2009. 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 September 2011, the Company acquired 20% equity interest in SYNCTV Corporation for US\$2,500 thousand and accounts has since accounted for this investment by the equity method.
- On its equity-method investments, the Company had a loss of NT\$3,961 thousand (US\$131 thousand) in 2011.
- The financial statements of the equity-method investees for the year ended December 31, 2011 had been examined by the Company's independent auditors.

## (15) PROPERTIES

Properties as of December 31, 2010 and 2011 were as follows:

	2010			2011		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value		
				NT\$	US\$ (Note 3)	
Land	\$5,862,076	\$7,614,167	\$-	\$7,614,167	\$251,467	
Buildings and structures	4,192,857	5,999,807	1,008,920	4,990,887	164,830	
Machinery and equipment	3,034,967	11,298,070	5,390,749	5,907,321	195,096	
Molding equipment	-	172,632	172,632	-	-	
Computer equipment	163,642	765,177	411,448	353,729	11,682	
Transportation equipment	4,709	7,710	3,788	3,922	130	
Furniture and fixtures	69,689	368,025	201,148	166,877	5,511	
Leased assets	1,398	6,730	5,811	919	30	
Leasehold improvements	183,853	463,581	119,863	343,718	11,352	
Prepayments for construction-in-progress and equipment-in-transit	511,138	2,130,938	-	2,130,938	70,377	
	\$14,024,329	\$28,826,837	\$7,314,359	\$21,512,478	\$710,475	

- 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 headquarters in Xindian City. The Company had paid 80% and 20% of the purchase price and completed the transfer registration of the corresponding portions of the land in December 2008 and January 2010, respectively.
- In November 2010, the Company bought land and building for NT\$404,000 thousand from a related party, VIA Technologies, Inc. to have more office space in Xindian.
- In April 2011, the Company bought land adjacent to its Taoyuan plant for NT\$1,770,000 thousand (US\$58,456 thousand) from an unrelated party to build a complete HTC technology park and meet future capacity expansion requirements.
- Prepayments for construction-in-progress and equipment-in-transit were for the construction of the Taipei R&D headquarters, Taoyuan plant and the Shanghai employees' dormitory and as well as miscellaneous equipment.
- There were no interests capitalized for 2010 and 2011.

## (16) INTANGIBLE ASSETS

Intangible assets as of December 31, 2010 and 2011 were as follows:

	Year Ended December 31, 2011				
	Patents	Goodwill	Deferred Pension Cost	Other	Total
	NT\$	NT\$	NT\$	NT\$	NT\$
<b>Cost</b>					
Balance, beginning of year	\$-	\$286,467	\$490	\$-	\$286,957
<b>Additions</b>					
Acquisition	220,943	-	-	-	220,943
The difference between the cost of investment and the Company's share in investees' net assets	-	328,921	-	257,015	585,936
The changes in deferred pension cost	-	-	(74)	-	(74)
Translation adjustment	-	(46,077)	-	(28,165)	(74,242)
Balance, end of year	220,943	569,311	416	228,850	1,019,520
<b>Accumulated amortization</b>					
Balance, beginning of year	-	-	-	-	-
Amortization	12,362	-	-	-	12,362
Balance, end of year	12,362	-	-	-	12,362
<b>Accumulated impairment losses</b>					
Balance, beginning of year	-	46,475	-	-	46,475
Impairment losses	-	31,579	-	-	31,579
Translation adjustment	-	(6,546)	-	-	(6,546)
Balance, end of year	-	71,508	-	-	71,508
Net book value, end of year	\$208,581	\$497,803	\$416	\$228,850	\$935,650

	Year Ended December 31, 2011					
	Patents	Goodwill	Deferred Pension Cost	Other	Total	
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
<b>Cost</b>						
Balance, beginning of year	\$220,943	\$569,311	\$416	\$228,850	\$1,019,520	\$33,671
<b>Additions</b>						
Acquisition	2,282,409	-	-	11,951	2,294,360	75,774
The difference between the cost of investment and the Company's share in investees' net assets	9,033,450	10,240,332	-	603,852	19,877,634	656,483
Owned by acquirees	21,527	-	-	62,929	84,456	2,789
Adjustments of acquisition cost	-	81,183	-	-	81,183	2,681
The changes in deferred pension cost	-	-	(74)	-	(74)	(3)
Translation adjustment	50,211	15,052	-	4,380	69,643	2,300

(Continued)

	Year Ended December 31, 2011					
	Patents	Goodwill	Deferred Pension Cost	Other	Total	
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Balance, end of year	\$11,608,540	\$10,905,878	\$342	\$911,962	\$23,426,722	\$773,695
<b>Accumulated amortization</b>						
Balance, beginning of year	12,362	-	-	-	12,362	408
Amortization	443,551	-	-	330,812	774,363	25,574
Owned by acquirees	475	-	-	-	475	16
Translation adjustment	54	-	-	(14,634)	(14,580)	(482)
Balance, end of year	456,442	-	-	316,178	772,620	25,516
<b>Accumulated impairment losses</b>						
Balance, beginning of year	-	71,508	-	-	71,508	2,362
Impairment losses	-	18,608	-	-	18,608	615
Translation adjustment	-	3,198	-	-	3,198	105
Balance, end of year	-	93,314	-	-	93,314	3,082
Net book value, end of year	\$11,152,098	\$10,812,564	\$342	\$595,784	\$22,560,788	\$745,097

(Concluded)

## (17) ACCRUED EXPENSES

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$17,323,446	\$29,104,665	\$961,216
Bonus to employees	8,491,704	7,238,637	239,065
Salaries and bonuses	2,642,916	3,433,649	113,400
Services	1,843,017	1,324,631	43,748
Import, export and freight	1,321,198	1,397,747	46,162
Research materials	780,501	1,854,932	61,261
Repairs and maintenance	250,638	466,135	15,395
Donation	217,800	236,630	7,815
Meals and welfare	197,590	193,721	6,398
Insurance	127,905	191,931	6,339
Pension cost	69,610	123,877	4,091
Travel	49,691	96,085	3,173
Others	110,012	508,650	16,799
	\$33,426,028	\$46,171,290	\$1,524,862

- Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2010 and 2011 should be appropriated at 18% and 10%, respectively, 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.

## (18) OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2010 and 2011 were as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Warranty provisions	\$9,104,973	\$13,080,394	\$431,996
Provisions for contingent loss on purchase orders	1,942,147	2,052,881	67,799
Other payable	269,045	512,941	16,940
Agency receipts	476,948	440,862	14,560
Advance receipts	805,838	433,072	14,302
Advance revenues	-	140,815	4,651
Others	377,886	646,390	21,348
	\$12,976,837	\$17,307,355	\$571,596

- The Company provides warranty service for one year 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.
- Other payables were payables for patents, unpaid consideration for treasury stock buyback and agreed installments payable to the original stockholders of subsidiaries.
- Agency receipts were primarily employees' income tax, insurance, royalties and overseas value-added tax.

4. The provision for contingent loss on purchase orders is estimated after taking into account the effects of changes in the product market, in inventory management and in the Company's purchases.

## (19) LONG-TERM BANK LOANS

Long-term bank loans of Communication Global Certification Inc., a direct subsidiary of HTC, as of December 31, 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Secured loans (Note 28)			
NT\$65,000 thousand, repayable from July 2009 in 16 quarterly installments; 1% annual interest	\$24,376	\$-	\$-
Less: Current portion	(12,188)	-	-
	\$12,188	\$-	\$-

## (20) 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 required monthly contributions of HTC and Communication Global Certification Inc. (CGC) 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 based on the Act were NT\$220,769 thousand in 2010 and NT\$351,762 thousand (US\$11,618 thousand) in 2011.

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 required contributions of HTC and CGC to their respective pension funds was at 2% of monthly salaries and wages after the Act took effect. The pension funds are deposited in the Bank of Taiwan in the pension fund committees' name. The pension fund balances were NT\$448,631 thousand and NT\$482,786 thousand (US\$15,945 thousand) as of December 31, 2010 and 2011, respectively.

H.T.C. (B.V.I.) Corp., HTC Investment Corporation, HTC I Investment Corporation, Huada Digital Corporation, High Tech Computer Asia Pacific Pte. Ltd. and HTC Investment One (BVI) Corporation 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\$72,115 thousand in 2010 and NT\$200,330 thousand (US\$6,616 thousand) in 2011.

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.

### 1. The net pension costs of HTC and CGC under the defined benefit plan in 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Service cost	\$4,915	\$5,980	\$197
Interest cost	6,560	6,882	227
Projected return on plan assets	(8,598)	(9,226)	(305)
Amortization of unrecognized net transition obligation, net	74	74	3
Amortization	305	507	17
Net pension cost	\$3,256	\$4,217	\$139

### 2. The reconciliations between pension fund status and prepaid pension cost as of December 31, 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Present actuarial value of benefit obligation			
Vested benefits	\$1,525	\$10,026	\$331
Non-vested benefits	191,930	193,962	6,406
Accumulated benefit obligation	193,455	203,988	6,737
Additional benefits on future salaries	150,645	163,087	5,386
Projected benefit obligation	344,100	367,075	12,123
Plan assets at fair value	(448,631)	(482,786)	(15,945)
Funded status	(104,531)	(115,711)	(3,822)
Unrecognized net transitional obligation	(416)	(342)	(11)
Unrecognized pension loss	(54,414)	(68,285)	(2,255)
Additional minimum pension liability	536	635	21
Prepaid pension cost	\$(158,825)	\$(183,703)	\$(6,067)

### 3. Assumptions used in actuarially determining the present value of the projected benefit obligations of HTC and CGC were as follows:

	2010	2011
Weighted-average discount rate	2.00%	2.00%
Assumed rate of increase in future compensation	2.00%-3.75%	4.00%
Expected long-term rate of return on plan assets	2.00%	2.00%

The payments from the fund amounted to NT\$1,702 thousand in 2010 and NT\$793 thousand (US\$26 thousand) in 2011.

## (21) STOCKHOLDERS' EQUITY

### 1. Capital Stock

(1) The Company's outstanding common stock as of January 1, 2010 amounted 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 amounting to NT\$150,000 thousand. In June 2010, the stockholders approved the transfer of retained earnings of NT\$386,968 thousand and employee bonuses of NT\$50,206 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, divided into 817,653 thousand common shares at NT\$10.00 par value.

(2) In June 2011, the stockholders approved the transfer of retained earnings of NT\$403,934 thousand (US\$13,340 thousand) and employee bonuses of NT\$40,055 thousand (US\$1,323 thousand) to capital stock. Also, in December 2011, the Company retired 10,000 thousand treasury shares amounting to NT\$100,000 thousand (US\$3,303 thousand). As a result, the amount of the Company's outstanding common stock as of December 31, 2011 increased to NT\$8,520,521 thousand (US\$281,400 thousand), divided into 852,052 thousand common shares at NT\$10.00 (US\$0.33) par value.

### 2. Global Depository Receipts

The Company issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depository 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, and was issued, at a premium, at 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 depository 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 9,015.1 thousand units (36,060.5 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, 2011, there were 6,404.4 thousand units of GDRs redeemed, representing 25,617.5 thousand common shares, and the outstanding GDRs represented 10,443 thousand common shares or 1.25% of the Company's common shares.

### 3. Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from shares 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, with capitalization 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.

#### (1) Additional paid-in capital - issuance of shares in excess of par

The additional paid-in capital was NT\$9,056,323 thousand as of January 1, 2010. In April 2010, the retirement of treasury stock caused a decrease of NT\$172,188 thousand in additional paid-in capital. The bonus to employees of NT\$4,859,236 thousand for 2009 was approved in the stockholders' meeting in June 2010. Of the approved bonus, NT\$1,943,694 thousand was in the form of common stock, consisting of 5,021 thousand common shares at their fair value, which were distributed in 2010. The difference between par value and fair value of NT\$1,893,488 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.

Also, in June 2011, the bonus to employees of NT\$8,491,704 thousand (US\$280,449 thousand) for 2010 was approved in the stockholders' meeting. Of the approved bonus, NT\$4,245,851 thousand (US\$140,224 thousand) was in the form of common stock, consisting of 4,006 thousand common shares at their fair value, which were distributed in 2011. The difference between par value and fair value of NT\$4,205,796 thousand (US\$138,901 thousand) was accounted for as additional paid-in capital in 2011. In December 2011, the retirement of treasury stock caused a decrease of NT\$173,811 thousand (US\$5,740 thousand) in additional paid-in capital. As a result, the additional paid-in capital as of December 31, 2011 was NT\$14,809,608 thousand (US\$489,105 thousand).

## (2) Treasury stock transactions and expired stock options

In June 2011, the Company resolved to transfer treasury shares to employees. In 2011, the number of shares for transfer to employees was 6,000 thousand, with 5,875 thousand shares exercised. Based on the fair value at the grant date, NT\$1,750,767 thousand (US\$57,821 thousand) was accounted for as capital surplus - treasury stock transactions, and NT\$37,503 thousand (US\$1,239 thousand) for the unexercised 125 thousand shares was accounted for as capital surplus - expired stock options. Also, in December 2011, the retirement of treasury stock caused decreases in treasury stock transactions and expired stock options of NT\$20,309 thousand (US\$671 thousand) and NT\$435 thousand (US\$15 thousand), respectively. As a result, the treasury stock transactions and expired stock options as of December 31, 2011 were NT\$1,730,458 thousand (US\$57,150 thousand) and NT\$37,068 thousand (US\$1,224 thousand), respectively.

The fair values at the grant date for the fifth and sixth stock option buyback were NT\$394.105 and NT\$210.121, respectively. These fair values were estimated using the Black-Scholes option valuation model. The inputs to the model were as follows:

	5 <sup>th</sup> Buyback	6 <sup>th</sup> Buyback
Assumption		
Exercise price (NT\$)	\$598.83	\$797.30
Expected dividend yield	3.71%	3.71%
Expected life	1.67 months	1.67 months
Expected price volatility	56.99%	56.99%
Risk-free interest rate	0.7157%	0.7157%
Fair value	\$394.105	\$210.121

## (3) Long-term equity investments

As of January 1, 2010, the capital surplus from long-term equity-method investments was NT\$18,411 thousand. When the Company did not subscribe for the new shares issued by an equity-method investee, Huada Digital Corporation, in September 2011, the Company's total investment carrying value and capital surplus decreased by NT\$374 thousand (US\$12 thousand) each in 2011. As a result, the capital surplus from long-term equity-method investments as of December 31, 2011 was NT\$18,037 thousand (US\$596 thousand).

## (4) Merger

The additional paid-in capital from a merger was NT\$25,189 thousand as of January 1, 2010. In April 2010, the retirement of treasury stock caused a decrease of NT\$479 thousand in additional paid-in capital from a merger. As a result, the additional paid-in capital from a merger as of December 31, 2010 was NT\$24,710 thousand. Also, in December 2011, the retirement of treasury stock caused a decrease of NT\$287 thousand (US\$9 thousand) in additional paid-in capital from a merger. As a result, the additional paid-in capital from a merger as of December 31, 2011 was NT\$24,423 thousand (US\$807 thousand).

## 4. Appropriation of Retained Earnings and Dividend Policy

- (1) Based on the Company Law of the ROC and HTC's Articles of Incorporation, 10% of HTC'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.
- (2) Legal reserve shall be appropriated until it has reached the Company's paid-in capital. This reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.
- (3) As part of a high-technology industry and as a growing enterprise, HTC 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. HTC's dividend policy stipulates that at least 50% of total dividends may be distributed as cash dividends.
- (4) The bonus to employees of NT\$4,859,236 thousand for 2009 was approved in the stockholders' meeting in June 2010. The bonus to employees consisted of a cash bonus of NT\$2,915,542 thousand and a share bonus of NT\$1,943,694 thousand. The share number 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.
- (5) The bonus to employees of NT\$8,491,704 thousand for 2010 was approved in the stockholders' meeting in June 2011. The bonus to employees consisted of a cash bonus of NT\$4,245,852 thousand and a share bonus of NT\$4,245,852 thousand (The amounts were NT\$4,245,853 thousand and NT\$4,245,851 thousand, respectively, after taking into account the effect that the amount less than one share will be distributed in the form of cash). The share number of 4,006 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.

- (6) Based on the resolutions passed by HTC's board of directors, the employee bonuses for 2010 and 2011 should be appropriated at 18% and 10%, respectively, 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.
- (7) As of February 14, 2012, the date of the accompanying independent auditors' report, the appropriation of the 2011 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed on the Market Observation Post System website.

## (22) TREASURY STOCK

1. On February 9, 2010, the Company's board of directors passed a resolution to buy back 15,000 thousand of its 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 planned to continue to buy back its shares. The Company bought back 15,000 thousand shares for NT\$4,834,174 thousand during the repurchase period and retired them in April 2010.
2. On July 11, 2010, the Company's board of directors passed a resolution to buy back 10,000 thousand of its 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 planned to continue to buy back its shares. The Company bought back 4,786 thousand shares for NT\$2,865,990 thousand during the repurchase period.
3. On October 29, 2010, the Company's board of directors passed a resolution to buy back 5,000 thousand and 5,000 thousand of its 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 planned to continue to buy back its shares. The Company bought back 5,000 thousand shares for NT\$3,986,503 thousand during these repurchase periods.

4. In June 2011, the Company resolved to transfer 6,000 thousand treasury shares to employees; the number of shares actually transferred was 5,875 thousand.
5. On July 16, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand and 10,000 thousand of its shares from the open market between July 18, 2011 and August 17, 2011, and between August 18, 2011 and September 17, 2011, respectively, with the repurchase price ranging from NT\$900 (US\$30) to NT\$1,100 (US\$36) per share. If the Company's share price was lower than this price range, the Company planned to continue to buy back its shares. The Company bought back 20,000 thousand shares for NT\$16,086,098 thousand (US\$531,262 thousand) during the repurchase period and retired 10,000 thousand shares in December 2011.
6. On December 20, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand of its shares from the open market between December 20, 2011 and February 19, 2012, with the repurchase price ranged from NT\$445 (US\$15) to NT\$650 (US\$21) per share. If the Company's share price becomes lower than this price range, the Company planned to continue to buy back its shares. As of December 31, 2011, the Company had bought back 100 thousand shares for NT\$49,710 thousand (US\$1,642 thousand). Other treasury stock information for 2010 and 2011 were 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
Year ended December 31, 2010				
To maintain the Company's credibility and stockholders' interest	-	15,000	15,000	-
For transferring shares to the Company's employees	-	9,786	-	9,786
	-	24,786	15,000	9,786
Year ended December 31, 2011				
To maintain the Company's credibility and stockholders' interest	-	10,000	10,000	-
For transferring shares to the Company's employees	9,786	10,100	5,875	14,011
	9,786	20,100	15,875	14,011

7. 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 shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par, and paid-in capital reserve. In addition, the Company should not pledge its treasury shares nor exercise voting rights.



**(23) PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION**

Expense Item / Function	2010			2011			2011		
	NT\$			NT\$			US\$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	\$5,265,747	\$15,813,869	\$21,079,616	\$6,546,170	\$20,198,025	\$26,744,195	\$216,195	\$667,064	\$883,259
Salary	4,544,387	14,879,114	19,423,501	5,285,153	18,609,790	23,894,943	174,548	614,611	789,159
Insurance	224,738	446,621	671,359	375,386	599,600	974,986	12,398	19,802	32,200
Pension cost	101,749	194,391	296,140	232,408	323,901	556,309	7,676	10,697	18,373
Other	394,873	293,743	688,616	653,223	664,734	1,317,957	21,573	21,954	43,527
Depreciation	469,145	435,568	904,713	963,947	600,278	1,564,225	31,835	19,825	51,660
Amortization	36,244	60,952	97,196	33,681	802,930	836,611	1,112	26,518	27,630

**(24) INCOME TAX**

HTC's income tax returns through 2008 had been examined by the tax authorities. However, HTC disagreed with the tax authorities' assessment on its return for 2002 and applied for the administrative litigation of this return. 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., HTC Investment Corporation and HTC I Investment Corporation through 2009 had been examined and cleared by the tax authorities.

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

Item Exempt from Corporate Income Tax	Exemption Period
Sales of pocket PCs (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
Sales of wireless or smartphone which has 3.5G function (application for exemption under review by the Ministry of Finance as of December 31, 2011)	2012.01.01-2016.12.31

**1. 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 2010 and 2011; income tax payable, income tax receivables and deferred tax assets (liabilities) as of December 31, 2010 and 2011 were as follows:**

	2010			
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT\$	NT\$	NT\$	NT\$
HTC Corporation	\$4,957,709	\$6,416,667	\$-	\$3,345,010
Communication Global Certification Inc.	500	735	23	1,843
HTC Investment Corporation	132	-	216	-
HTC I Investment Corporation	159	32	-	-
Huada Digital Corporation	116	28	-	-
High Tech Computer Asia Pacific Pte. Ltd.	1,016	287	-	36
HTC Communication Co., Ltd.	(17,031)	80,600	-	56,370
HTC America Inc.	213,608	-	59,070	27,787
HTC EUROPE CO., LTD.	138,709	137,426	-	8,612
Exedea Inc.	19,356	-	4,894	2,505
HTC NIPPON Corporation	4,028	3,692	-	-
HTC BRASIL	5,006	3,575	-	2,607
HTC Corporation (Shanghai WGQ)	1,533	949	-	-
One & Company Design, Inc.	(5,034)	-	2,416	(319)

(Continued)

2010

	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT\$	NT\$	NT\$	NT\$
	HTC Belgium BVBA/SPRL	\$10,468	\$11,005	\$-
High Tech Computer (H.K.) Limited	1,435	640	-	-
HTC (Australia and New Zealand) Pty. Ltd.	6,292	5,132	-	(1,189)
HTC India Private Limited	1,837	5,929	21	16
HTC (Thailand) Limited	1,206	720	-	-
HTC Electronics (Shanghai) Co., Ltd.	86,172	123,994	63,647	46,288
HTC Malaysia Sdn. Bhd.	1,334	(227)	-	256
HTC Innovation Limited	1,060	1,005	-	-
HTC Netherlands B.V.	1,029	958	-	-
HTC FRANCE CORPORATION	2,074	3,155	-	(78,724)
HTC South Eastern Europe Limited Liability Company	456	424	-	-
HTC Germany GmbH	2,502	605	-	-
HTC Spain, S.L.	757	419	-	-
HTC Italia SRL	3,705	(1,263)	-	-
HTC Nordic ApS	1,092	275	-	(55)
HTC Poland sp. z.o.o.	225	-	-	734
HTC HK, Limited	58	54	-	-
HTC America Innovation Inc.	8,035	12,601	-	5,174
	\$5,449,544	\$6,809,417	\$130,287	\$3,417,684

(Concluded)

2011

	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	\$7,873,875	\$260,044	\$9,653,090	\$318,805	\$-	\$-	\$5,113,822
Communication Global Certification Inc.	7,072	234	6,047	200	-	-	1,677	55
High Tech Computer Asia Pacific Pte. Ltd.	11,128	368	10,507	347	-	-	37	1
HTC Investment Corporation	229	8	26	1	-	-	-	-
HTC I Investment Corporation	167	6	-	-	29	1	-	-
Huada Digital Corporation	271	9	15	1	-	-	-	-
Exedea Inc.	656	22	-	-	152	5	-	-
High Tech Computer (H.K.) Limited	2,630	87	-	-	-	-	-	-
HTC (Australia and New Zealand) PTY LTD.	11,261	372	11,775	389	-	-	(884)	(29)
PT. High Tech Computer Indonesia	223	7	226	7	-	-	-	-
HTC (Thailand) Limited	3,621	120	2,285	75	-	-	-	-
HTC India Private Limited	2,772	92	-	-	-	-	-	-
HTC Malaysia Sdn. Bhd.	3,448	114	769	25	-	-	301	10
HTC Innovation Limited	2,677	88	1,542	51	-	-	-	-
HTC Communication Co., Ltd.	43,337	1,431	532,692	17,593	-	-	689,907	22,785
HTC HK, Limited	3,343	110	4,877	161	-	-	-	-
HTC Corporation (Shanghai WGQ)	3,917	129	2,082	69	-	-	-	-
HTC Electronics (Shanghai) Co., Ltd.	254,684	8,411	185,536	6,127	-	-	48,090	1,588
HTC Netherlands B.V.	1,400	46	1,630	54	-	-	-	-
HTC EUROPE CO., LTD.	159,811	5,278	125,595	4,148	-	-	9,451	312
HTC BRASIL	196	6	-	-	-	-	2,720	90
HTC Belgium BVBA/SPRL	1,043	34	5,983	197	-	-	-	-
HTC NIPPON Corporation	3,213	106	-	-	221	8	-	-
HTC FRANCE CORPORATION	314	10	582	19	-	-	-	-
HTC South Eastern Europe Limited Liability Company	1,267	42	1,282	42	-	-	-	-
HTC Nordic ApS	6,466	214	423	14	-	-	(79)	(3)
HTC Italia SRL	4,177	138	-	-	-	-	-	-
HTC Germany GmbH.	7,543	249	4,869	161	-	-	-	-
HTC Iberia S.L.	3,305	109	3,313	109	-	-	-	-
HTC Poland sp. z.o.o.	15	1	-	-	-	-	1,794	59
HTC Communication Canada, Ltd.	90	3	91	3	-	-	-	-

(Continued)

	2011							
	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 Norway AS.	\$43	\$1	\$44	\$1	\$-	\$-	\$-	\$-
HTC Communication Sweden AB	14	1	14	1	-	-	-	-
HTC America Holding Inc.	126,330	4,172	-	-	-	-	(128,209)	(4,234)
ABAXIA SAS	7,321	242	-	-	-	-	-	-
HTC America Inc.	509,591	16,830	-	-	252,748	8,347	104,038	3,436
One & Company Design, Inc.	10,418	344	-	-	9,965	329	20,196	667
HTC America Innovation Inc.	60,318	1,992	14,795	489	-	-	58,772	1,941
Dashwire, Inc.	-	-	566	19	-	-	-	-
Beats Electronics, LLC	5,553	183	-	-	-	-	-	-
Saffron Digital Inc.	(9,100)	(301)	26	1	-	-	84	3
	\$9,124,639	\$301,352	\$10,570,682	\$349,109	\$263,115	\$8,690	\$5,921,717	\$195,571

(Concluded)

## 2. Deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Allowance for loss on decline in value of inventory	\$596,374	\$834,797	\$27,570
Unrealized marketing expenses	2,705,547	4,922,310	162,565
Unrealized warranty expense	1,539,698	2,247,065	74,212
Capitalized expense	74,433	69,302	2,289
Unrealized royalties	2,522,645	4,817,745	159,112
Unrealized bad-debt expenses	64,353	153,749	5,078
Unrealized contingent losses on purchase orders	206,795	348,990	11,526
Unrealized exchange losses	387,258	138,093	4,561
Unrealized research materials expenses	-	138,502	4,574
Unrealized sales allowance	-	71,874	2,374
Unrealized salary and welfare	55,711	307,356	10,151
Other	11,236	129,454	4,275
Loss carryforwards	1,523	90,371	2,984
Tax credit carryforwards	3,148,156	3,125,027	103,208
Total deferred tax assets	11,313,729	17,394,635	574,479
Less: Valuation allowance	(7,788,708)	(11,132,656)	(367,670)
Total deferred tax assets, net	3,525,021	6,261,979	206,809
Deferred tax liabilities	(27,063)	(30,778)	(1,017)
Unrealized pension cost	(76,547)	(43,668)	(1,442)
Unrealized valuation gains on financial instruments	-	(240,760)	(7,951)
Unrealized investment income	(3,727)	(25,056)	(828)
Unrealized depreciation	3,417,684	5,921,717	195,571
Less: Current portion	(1,051,196)	(2,246,196)	(74,183)
Deferred tax assets - noncurrent	\$2,366,488	\$3,675,521	\$121,388

## 3. Details of the tax credit carryforwards were as follows:

Credit Grant Year	Validity Period	2010		2011
		NT\$	NT\$	US\$ (Note 3)
2007	2007-2011	\$4,404	\$-	\$-
2008	2008-2012	833,163	814,121	26,887
2009	2009-2013	2,310,589	2,310,900	76,321
2010	2010-2014	-	6	-
		\$3,148,156	\$3,125,027	\$103,208

As of December 31, 2010 and 2011, the loss carryforwards of HTC BRASIL that gave rise to deferred income tax assets in the Federative Republic of Brazil were NT\$1,523 thousand and NT\$1,411 thousand (US\$47 thousand), respectively. 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 of the current year.

As of December 31, 2011, the loss carryforwards of Saffron Digital Inc. and Dashwire, Inc. that gave rise to deferred income tax assets in the United States were NT\$4,330 thousand (US\$143 thousand) and NT\$84,630 thousand (US\$2,795 thousand), respectively, and could be carried forward for 20 years.

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

## 4. The income taxes in 2010 and 2011 were as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$6,890,038	\$11,581,019	\$382,477
Increase in deferred income tax assets	(1,537,739)	(2,504,033)	(82,699)
Underestimation of prior year's income tax	97,245	47,653	1,574
Income tax	\$5,449,544	\$9,124,639	\$301,352

## 5. The integrated income tax information is as follows:

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account (ICA)	\$3,098,652	\$2,523,575	\$83,344
Unappropriated earnings generated from 1998	52,876,892	75,762,315	2,502,141
Actual/estimated creditable ratio (including income tax payable)	17.73% (Actual ratio)	15.91% (Estimated ratio)	15.91% (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 2011 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

In the calculation of the expected creditable ratio for 2010 and 2011, the income taxes payable as of December 31, 2010 and 2011 were included.

## (25) 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 856,001 thousand shares for 2010 and 845,319 thousand shares for 2011. EPS for 2010 was calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2011.
- The Accounting Research and Development Foundation issued Interpretation 2007-052, which 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 2010 and 2011 is as follows:



	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\$	
Basic EPS	\$44,491,309	\$39,533,600	856,001	\$51.98	\$46.18
Bonus to employees	-	-	10,201		
Diluted EPS	\$44,491,309	\$39,533,600	866,202	\$51.36	\$45.64

	2011				
	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\$	
Basic EPS	\$69,849,671	\$61,975,796	845,319	\$82.63	\$73.32
Bonus to employees	-	-	16,527		
Diluted EPS	\$69,849,671	\$61,975,796	861,846	\$81.05	\$71.91

	2011				
	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)	
Basic EPS	\$2,306,868	\$2,046,824	845,319	\$2.73	\$2.42
Bonus to employees	-	-	16,527		
Diluted EPS	\$2,306,868	\$2,046,824	861,846	\$2.68	\$2.37

## (26) FINANCIAL INSTRUMENTS

### 1. Fair Value of Financial Instruments

#### (1) Nonderivative financial instruments

	December 31					
	2010		2011			
	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	\$441,948	\$441,948	\$736,031	\$24,308	\$736,031	\$24,308
Available-for-sale financial assets - noncurrent	538	538	279	9	279	9
Held-to-maturity financial assets - noncurrent	207,946	207,467	204,597	6,757	203,783	6,730
Financial assets carried at cost	1,023,661	1,023,661	3,408,654	112,575	3,408,654	112,575

#### (2) Derivative financial instruments

	December 31					
	2010		2011			
	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	\$450,276	\$450,276	\$256,868	\$8,483	\$256,868	\$8,483

### 2. 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 listed above exclude refundable deposits, guarantee deposits and long-term bank loans. The fair values of long-term bank loans 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.

(3) 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 with no quoted market prices.

(4) 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.

### 3. Fair Values of Financial Instruments Based on Quoted Market Prices or Valuation Methods

	Fair Values Based on Quoted Market Prices			Fair Values Based on Valuation Methods		
	December 31			December 31		
	2010	2011		2010	2011	
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$-	\$-	\$-	\$450,276	\$256,868	\$8,483
Available-for-sale financial assets - current	441,948	736,031	24,308	-	-	-
Available-for-sale financial assets - noncurrent	538	279	9	-	-	-
Held-to-maturity financial assets - noncurrent	207,467	203,783	6,730	-	-	-
Financial assets carried at cost	-	-	-	1,023,661	3,408,654	112,575

There was no loss or gain recognized for 2010 and 2011 on the fair value changes of derivatives with fair values estimated using valuation techniques. However, the Company recognized unrealized gains of NT\$773 thousand for 2010 and NT\$3,824 thousand (US\$126 thousand) for 2011 under stockholders' equity for the changes in fair value of available-for-sale financial assets.

As of December 31, 2010 and 2011, financial assets exposed to fair value interest rate risk amounted to NT\$207,946 thousand and NT\$204,597 thousand (US\$6,757 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$52,210,905 thousand and NT\$59,356,763 thousand (US\$1,960,328 thousand), respectively.

### 4. Financial Risks

#### (1) 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.

#### (2) 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.

#### (3) Cash flow risk

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

## (27) RELATED-PARTY TRANSACTIONS

### 1. The related parties were as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of HTC's chairperson
VIA Technologies, Inc.	Same chairperson as HTC's
Chander Electronics Corp.	Same chairperson as HTC's
Way-Lien Technology Co., Ltd.	Significant stockholder of HTC
WTI Investment International, Ltd.	Its significant stockholder in substance is HTC's chairperson
VIABASE CO., LTD.	Chairperson of its parent company is the same as HTC's
S3 Graphics Co., Ltd.	A wholly owned subsidiary of VIABASE CO., LTD. and WTI Investment International, Ltd.
Employees' Welfare Committee	Employees' Welfare Committee of HTC
HTC Cultural and Educational Foundation	A nonprofit organization with over one third of its total funds donated by the Company
HTC Social Welfare and Charity Foundation	A nonprofit organization with over one third of its total funds donated by the Company

## 2. Major transactions with related parties are summarized below:

### (1) Purchases of Inventories and Services

Related Party	2010		2011	
	Amount	% to Total Net Purchases	Amount	% to Total Net Purchases
	NT\$		NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$270,931	-	\$172,540	\$5,698

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

### (2) Sales and Services Provided

Related Party	2010		2011	
	Amount	% to Total Revenues	Amount	% to Total Revenues
	NT\$		NT\$	US\$ (Note 3)
Employees' Welfare Committee	\$34,138	-	\$52,540	\$1,735
VIA Technologies, Inc.	2,353	-	858	28
Others	1,701	-	1,863	62
	\$38,192	-	\$55,261	\$1,825

The selling prices for products sold to related parties were similar to those for sales to third parties, except those for the respective Employees' Welfare Committees. The collection terms for products sold to related parties were similar to those for sales to third parties.

### (3) Accounts Receivable

Related Party	2010		2011	
	Amount	% to Total Notes and Accounts Receivable	Amount	% to Total Notes and Accounts Receivable
	NT\$		NT\$	US\$ (Note 3)
VIA Technologies, Inc.	\$2,113	-	\$-	\$-
Others	30	-	473	16
	\$2,143	-	\$473	\$16

### (4) Accounts Payable

Related Party	2010		2011	
	Amount	% to Total Notes and Accounts Receivable	Amount	% to Total Notes and Accounts Receivable
	NT\$		NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$126,093	-	\$-	\$-

### (5) Other Receivables

Related Party	2010		2011	
	Amount	% to Total Other Receivable	Amount	% to Total Other Receivable
	NT\$		NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$20	-	\$966	\$32
Others	107	-	-	-
	\$127	-	\$966	\$32

### (6) Accrued Expenses

Related Party	2010		2011	
	Amount	% to Total Accrued Expenses	Amount	% to Total Accrued Expenses
	NT\$		NT\$	US\$ (Note 3)
HTC Cultural and Educational Foundation	\$217,800	1	\$217,800	\$7,193
Way-Lien Technology Inc.	400	-	210	7
	\$218,200	1	\$218,010	\$7,200

### (7) Service Fees

Related Party	2010		2011	
	Amount	% to Total Service Expenses	Amount	% to Total Service Expenses
	NT\$		NT\$	US\$ (Note 3)
Way-Lien Technology Inc.	\$2,000	-	\$2,400	\$79

### (8) Rental Revenues

Related Party	2010		2011	
	Amount	% to Total Service Expenses	Amount	% to Total Service Expenses
	NT\$		NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$-	-	\$920	\$30

### (9) Leasing - Lessee

Operating expenses - rental expenses

Related Party	2010		2011	
	Amount	% to Total Rental Expenses	Amount	% to Total Rental Expenses
	NT\$		NT\$	US\$ (Note 3)
VIA Technologies Inc.	\$12,212	5	\$5,209	\$172

The Company leased offices and parking space owned by VIA Technologies, Inc. under operating lease agreements. The term of the lease agreement is from May 10, 2008 to March 31, 2012 and the rental payment was determined at the prevailing rates in the surrounding area.

### (10) Donation

Related Party	2010		2011	
	Amount	% to Total Donation Expenses	Amount	% to Total Donation Expenses
	NT\$		NT\$	US\$ (Note 3)
HTC Cultural and Educational Foundation	\$150,000	49	\$150,000	\$4,954
HTC Social Welfare and Charity Foundation	150,000	49	150,000	4,954
	\$300,000	98	\$300,000	\$9,908

The Company donated NT\$305,500 thousand in 2010 and NT\$388,050 thousand (US\$12,816 thousand) in 2011 to help disadvantaged minorities, teenagers and other people in need. Of these donations, NT\$5,500 thousand in 2010 and NT\$88,050 thousand (US\$2,908 thousand) in 2011 went to unrelated parties (Note 16 has more information).

### (11) Property Transactions

a. S3 Graphics Co, Ltd. ("S3 Graphics") owns patents on key graphics technologies, which can strengthen the Company's patent portfolio and counteract the patent rights of competitors and potential licensors around the globe. In their meeting on July 6, 2011, the Board of Directors resolved to invest in S3 Graphics, and in November 2011, the Company obtained all patents owned by S3 Graphics through the purchase of all the shares of S3 Graphics from VIABASE CO., LTD. and WTI Investment International, Ltd. by increasing the capital of HTC Investment One (BVI) Corporation by an amount of US\$300,000 thousand.

b. In 2011, the Company bought building equipment from Chander Electronics Corp. for NT\$6,555 thousand (US\$216 thousand).

c. In November 2010, the Company bought land and building for NT\$404,000 thousand from a related party, VIA Technologies, Inc. to have more office space in Xindian.

### (12) Patent Litigation

Note 31 has more information about patent litigation

### 3. Compensation of Directors, Supervisors and Management Personnel

	2010		2011
	NT\$	NT\$	US\$ (Note 3)
Salaries	\$140,216	\$166,422	\$5,496
Incentives	300,734	134,924	4,456
Special compensation	3	-	-
Bonus	1,386,441	(Note)	(Note)
	\$1,827,394	\$301,346	\$9,952

Note: The appropriation of the 2011 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 2010 and 2011 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, 2010 included the bonuses appropriated from the earnings of 2010, which were approved by the stockholders in their annual meeting in 2011.

### (28) PLEDGED ASSETS

As of December 31, 2010 and 2011, the Company had provided time deposits of NT\$95,688 thousand and NT\$68,700 thousand (US\$2,269 thousand), respectively, as collaterals for secured loans, as rental deposits and as a meeting of one of the requirements of the National Tax Administration of Northern Taiwan Province for the Company to get a certificate stating that it had no pending income tax.

### (29) COMMITMENTS AND CONTINGENCIES

- As of December 31, 2011, unused letters of credit amounted to US\$1,951 thousand.
- The Company provided a US\$15,000 thousand guarantee for HTC Electronics (Shanghai) Co., Ltd.'s bank loans. The Company terminated the guarantee in April 2011.
- Under the unit purchase agreement between HTC and Beats Electronics, LLC, the founding members of Beats Electronics, LLC shall have a put right to sell HTC all of the interests by years. In addition, HTC shall have a call right to make a purchase of all the founding members' interests. The put right and call right are terminated automatically upon the consummation of a qualified IPO.

### (30) 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 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement term 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.
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 - December 31, 2016	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 in the agreement.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.

(Continued)

Contractor	Contract Term	Description
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents in the agreement.	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 in the agreement. b. Any time when the Company is not using any of Motorola's intellectual property.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents in the agreement.	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)

### (31) OTHER EVENTS

#### 1. Lawsuit

- 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 European Patent Office ("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 of the revised very restricted claim. The risk of this newly asserted patent is very low.

In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent #100a (EP 1841268B1) with the High Court in London. Preliminary injunction and summary judgment against the Company are very unlikely.

In December 2011, the Company withdrew its appeal with the court of Appeal in Karlsruhe, Germany, in order to avoid possible finding of infringement on #100a (EP 1841268B1). IPCom has started enforcement proceedings of original #100 injunction. The Company has now fully implemented workaround in place, so business is not affected in Germany.

Also, IPCom filed a multi-claim lawsuit against the Company in multiple jurisdictions, including USA, UK and Italy. After that, the Company filed patent non-infringement and patent invalidity in those jurisdictions. As of February 14, 2012, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

- 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.

In November 2011, the Company acquired the business operation and ownership of patent portfolio of S3 Graphics Co., Ltd. ("S3 Graphics"). In July 2011, Apple filed another ITC investigation and a companion district court case in Delaware against the Company alleging patent infringement (ITC No. 337-TA-797). In August 2011, the Company filed another ITC investigation and a companion district court case in Delaware against Apple alleging patent infringement (ITC No. 337-TA-808) against Apple. On September 22, 2011, S3 Graphics filed another ITC investigation (ITC No. 337-TA-813) and a companion district court case in Delaware against Apple alleging infringement of its patents.

In December 2011, the Company received the notice of ITC committee's final determination in the Apple vs. HTC case, (ITC No. 337-TA-710). Apple originally asserted 10 of its patents against the Company in March 2010, and the ITC Committee ruled that the Company infringed on 1 patent. Apple has appealed and the Company is implementing workaround into new products, so business is not affected in the US. As for the investigation filed by the Company against Apple (ITC No. 337-TA-721), on October 17, 2011, the ITC judge issued his initial determination and ruled that Apple does not infringe the 4 asserted patents owned by the Company. The Company has appealed.

As of February 14, 2012, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

(3) In March 2008, Flashpoint Technology, Inc., a U.S. entity, sued the Company with 10 patents in the District Court of Delaware alleging the Company infringed its patents and seeking damage compensation. The Company filed re-exams and the district court case was stayed pending the result of the re-examination from U.S. Patent and Trademark Office on November 2009, and is still stayed.

In May 2010, Flashpoint filed an ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. In November 2011, the ITC Committee issued its Final Determination and ruled that the Company does not infringe patents owned by Flashpoint.

(4) The Company had shared lawsuit-related costs on the basis of common benefits and agreements between its vendors and customers. For 2011, companies that the Company shared lawsuit-related costs with included VIA Technologies Inc. and its subsidiaries.

(5) On the basis of its past experience and consultations with its legal counsel, the Company has evaluated the possible effects of the above lawsuits on its business and financial condition as well as on relevant matters.

## 2. Construction of the Taipei R&D Headquarters

In September 2009, the Company's board of directors resolved to build the Taipei R&D headquarters 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 February 2012 (Note 15 has more information).

## 3. Other

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31			
	2010		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<b>Financial assets</b>				
<b>Monetary items</b>				
USD	\$2,611,457	29.13	\$3,143,462	30.28
EUR	744,761	38.92	498,383	39.19
GBP	95,774	45.19	54,254	46.73
RMB	698,286	4.42	1,344,825	4.77
<b>Non-monetary items</b>				
USD	11,150	29.13	89,493	30.28
<b>Investments accounted for by the equity method</b>				
USD	-	-	2,500	30.28
<b>Financial liabilities</b>				
<b>Monetary items</b>				
USD	2,929,408	29.13	3,372,400	30.28
EUR	756,858	38.92	583,741	39.19
GBP	112,468	45.19	53,624	46.73
RMB	383,542	4.42	1,463,205	4.77

## (32) SEGMENT DISCLOSURES

The Company is organized and managed as a single reportable business segment. The Company's operations are mainly related to the research, design, manufacture and sales of smart handheld devices.

Selected financial information is as follows:

### 1. Geographical Areas

The Company's noncurrent assets (other than financial instruments, deferred income tax assets and post-employment benefit assets) located in an individual foreign country as of December 31, 2010 and 2011 and revenues from domestic and overseas customers for 2010 and 2011 were as follows:

	Noncurrent Assets			Revenues		
	Year Ended December 31			Year Ended December 31		
	2010	2011	2010	2011	2010	2011
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
Taiwan	\$14,022,245	\$24,807,110	\$819,284	\$7,557,197	\$20,140,051	\$665,149
Country W	140,125	10,271,855	339,240	137,860,891	215,842,904	7,128,469
Country X	638,003	2,021,707	66,769	23,333,440	30,969,172	1,022,794
Country Y	260	893	31	18,451,758	20,495,340	676,883
Country Z	2,425,839	5,240,612	173,077	5,050,102	21,866,615	722,171
Others	544,364	11,023,509	364,065	86,507,856	156,480,691	5,167,961
	\$17,770,836	\$53,365,686	\$1,762,466	\$278,761,244	\$465,794,773	\$15,383,427

### 2. Major Customers

Revenues in 2010 and 2011 that were 10 percent or more from transactions with a single external customer were as follows:

Customer	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
A	\$47,500,397	\$75,243,879	\$2,485,019
B	38,544,296	63,091,960	2,083,687
C	51,646,672	47,541,529	1,570,115
	\$137,691,365	\$185,877,368	\$6,138,821

## (33) DISCLOSURE OF THE PLAN FOR THE REQUIRED ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Company should disclose the following information on its adoption of the International Financial Reporting Standards (IFRSs).

1. On May 14, 2009, the FSC announced the "Framework for the Adoption of International Financial Reporting Standards by the Companies in the ROC." In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange (TWSE) or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidances translated by the ARDF and issued by the FSC. To comply with this framework, the Company has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is Mr. James Chen, the vice president. The main contents of the plan, schedule and status of execution as of December 31, 2011 were as follows:

Contents of Plan	Responsible Department	Status of Execution
1. Assessment phase: From January 1, 2010 to December 31, 2011		
• Make a plan to adopt the IFRSs and set up a project team	Finance and accounting	Completed
• Conduct phase I internal training for employees	Finance and accounting and talent management	Completed
• Compare and analyze the differences between the existing accounting policies and the accounting policies to be adopted under IFRSs	Finance and accounting	Completed

(Continued)

Contents of Plan	Responsible Department	Status of Execution
<ul style="list-style-type: none"> <li>Assess the adjustments of the existing accounting policies</li> </ul>	Finance and accounting	Completed
<ul style="list-style-type: none"> <li>Assess the applicability of the IFRS 1 - "First-time Adoption of International Financial Reporting Standards"</li> </ul>	Finance and accounting	Completed
<ul style="list-style-type: none"> <li>Assess the adjustments of the related information technology system and internal control</li> </ul>	Finance and accounting, internal audit and information technology	Completed
2. Preparation phase: From January 1, 2011 to December 31, 2012		
<ul style="list-style-type: none"> <li>Determine how to adjust the existing accounting policies in accordance with IFRSs</li> </ul>	Finance and accounting	Completed
<ul style="list-style-type: none"> <li>Determine how to apply to the IFRS 1 - "First-time Adoption of International Financial Reporting Standards"</li> </ul>	Finance and accounting	Completed
<ul style="list-style-type: none"> <li>Adjust the related information technology system and internal control</li> </ul>	Finance and accounting, internal audit and information technology	In progress
<ul style="list-style-type: none"> <li>Conduct phase II internal training for employees</li> </ul>	Finance and accounting and talent management	Completed
3. Implementation Phase: From January 1, 2012 to December 31, 2013		
<ul style="list-style-type: none"> <li>Test run the adjusted related information technology system</li> </ul>	Finance and accounting and information technology	In progress
<ul style="list-style-type: none"> <li>Gather information to prepare the opening balance sheets and comparative financial statements in conformity with IFRSs</li> </ul>	Finance and accounting	In progress
<ul style="list-style-type: none"> <li>Prepare financial statements in conformity with IFRSs</li> </ul>	Finance and accounting	In progress

(Concluded)

2. As of December 31, 2011, the Company had assessed the material differences, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

Accounting Issues	Description of Differences
Deferred income tax assets and liabilities of intergroup sales, classification of deferred income tax assets and liabilities and valuation allowance account.	<ol style="list-style-type: none"> <li>Under ROC GAAP, deferred income tax assets or liabilities of intergroup sales are recognized for the change in tax basis using the seller's tax rates. However, under IFRSs, the buyer's tax rates are used instead.</li> <li>Under ROC GAAP, a deferred income tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred income tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent according to the expected reversal or realization date of the temporary difference. By contrast, under IFRSs, a deferred income tax asset or liability is always classified as noncurrent.</li> <li>Under ROC GAAP, deferred tax assets are recognized in full but are reduced by a valuation allowance account if there is evidence showing that a portion of or all the deferred tax assets will not be realized. However, under IFRSs, an entity recognizes deferred tax assets only if realization is "probable" and a valuation allowance account is not used.</li> </ol>
Actuarial gains and losses	Under ROC GAAP, the Company amortizes actuarial gains and losses using the corridor approach. However, under IFRSs, actuarial gains and losses may be recognized immediately as other comprehensive income (OCI).
Accumulated compensated absences	This issue is not addressed in existing ROC GAAP; thus, the Company has not recognized the expected cost of employee benefits in the form of accumulated compensated absences at the end of reporting periods. However, under IFRSs, when the employees render services that increase their entitlement to future compensated absences, an entity should recognize the expected cost of employee benefits at the end of reporting periods.
Definition of cash and cash equivalents and reclassification	Under ROC GAAP, the term "cash" used in the financial statements includes cash on hand, demand deposits, check deposits, time deposits that are cancellable but without any loss of principal and negotiable certificates of deposit that are readily salable without any loss of principal. However, under IFRSs, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. An investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition.
Definition of provisions and reclassification	Under ROC GAAP, if an obligation is probable (i.e., likely to occur) and the amount could be reasonably estimated, it is a contingent liability and should be accounted for, but under which account is not clearly defined. However, under IFRSs, it defines "provisions" as obligations that are probable (i.e., more likely than not) and the amount could be reasonably estimated.
Goodwill arising on the acquisition of a foreign operation and any fair value adjustment.	This issue is not addressed in the ROC GAAP. However, under IFRSs, any goodwill and any fair value adjustment arising on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation. Thus, they should be expressed in the functional currency of the foreign operation and should be translated at the closing rate.

(Continued)

Accounting Issues	Description of Differences
Changes in a parent's ownership interest in a subsidiary	<ol style="list-style-type: none"> <li>Not resulting in a loss of control: Under ROC GAAP, upon disposal of the investment in a subsidiary, irrespective of whether the changes result in a loss of control, the difference between the selling price and book value of the investment should be recognized as a disposal gain or loss. And if a subsidiary issues new shares and the parent company does not buy new shares proportionately, the parent's ownership percentage and the interest in net assets of the investment will be changed. These changes should then be used to adjust the additional paid-in capital. By contrast, under IFRSs, the changes should be accounted for as equity transactions of the consolidated entity; thus, no gain or loss is reported.</li> <li>Result in a loss of control: Under ROC GAAP, when the long-term equity investment is sold, if there is a balance on additional paid-in capital or other equity adjustment items of the investment, an investor company should calculate its share so that the pro rata gains or losses from the disposal of the long-term investment can be accounted for. In addition, the carrying amount of any investment retained in the former subsidiary at the date when control is lost should be regarded as the new cost of the financial asset. However, under IFRSs, the parent company should account for all amounts recognized in other comprehensive income (OCI) in relation to that subsidiary on the same basis as would be required had the parent company had directly disposed of the related assets or liabilities. In addition, this applies to the entire amount recognized in OCI, irrespective of whether the parent company retains any interest in the former subsidiary. Further, the fair value of any investment retained in the former subsidiary at the date when control is lost should be recognized as the new fair value of the financial asset.</li> </ol>
Business combinations achieved in stages (step acquisition)	<p>Under ROC GAAP, no matter whether the acquirer has pre-acquisition controlling interests in an investee, at the acquisition date, the acquirer does not remeasure the pre-acquisition interest at fair value. However, under IFRSs:</p> <ol style="list-style-type: none"> <li>When an acquirer does not have pre-acquisition controlling interests in an acquiree, the acquirer should remeasure on the effective combination date its previously held equity interest at fair value and recognize the resulting gain or loss, if any, in profit or loss or OCI, as appropriate. The amount recognized in OCI should be recognized on the same basis as would be required had the acquirer disposed directly of the previously held equity interest.</li> <li>When the acquirer has pre-acquisition controlling interests in the investee, the acquisition transaction should be accounted for as an equity transaction with owners and no gain or loss is recognized.</li> </ol>

3. The Company has prepared the above assessments in compliance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the International Accounting Standards Board (IASB) continues to issue or amend standards, and as the FSC may issue new rules governing the adoption of IFRSs by companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market. Actual accounting policies adopted under IFRSs in the future may differ from those contemplated during the assessments. New and revised standards, amendments or interpretations that have been issued by IASB and approved but are not yet effected by the FSC are as follows:

Standards or interpretations	Content	Effective Date by IASB
IFRSs (Amendments)	Improvements to 2010 IFRS	July 1, 2010 and January 1, 2011
IFRSs (Amendments)	Improvements to 2009 IFRS, which amends IAS 39 (see note below)	January 1, 2009 and January 1, 2010
IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	July 1, 2010
IFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	July 1, 2011
IFRS 7 (Amendment)	Disclosures - transfers of financial assets	July 1, 2011
IFRS 9 (Amendment)	Financial instruments	January 1, 2015
IAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	January 1, 2012
IAS 39 (Amendment)	Eligible hedged items (See note below)	Effective for a fiscal year ending on or after June 30, 2009

Note: In the ROC, Taiwan Financial Reporting Standards (TFRS) is in compliance with the 2009 version of the IAS 39, but the amendment to IAS 39 that was issued by IASB in 2009 is not applicable temporarily.

The Company believes that the first-time and subsequent adoption of the foregoing new and revised standards, amendments or interpretations approved by FSC will not affect its financial statements, except for the following areas:

#### IFRS 9: Financial instruments

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets. In addition, financial assets that meet the following conditions are measured at amortized cost and assessed for impairment in subsequent periods:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms on the instrument state specific dates corresponding to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets are subsequently measured at fair value. However, upon initial recognition, the Company may choose to designate a financial asset as at FVTPL if such designation eliminates or significantly reduces a measurement or recognition inconsistency.



Investments in equity instruments are classified as at FVTPL, unless the Company designates an investment that is not held for trading as at FVTOCI on initial recognition. If investments in equity instruments are classified as at fair value through other comprehensive income (FVTOCI), except for dividends that are usually recognized in profit or loss in accordance with IAS 18 - Revenue, all gains and losses are recognised in OCI and will not be reclassified to profit or loss.

For financial liabilities, the main difference in classification and measurement refers to financial liabilities that are classified as at FVTPL. Under IFRS 9 - Financial Instruments, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. For financial liabilities previously classified as at FVTPL under IAS 39 - Financial Instruments: Recognition and Measurement, the amount of change in the fair value of the financial liability is recognized in profit or loss.

For its first-time adoption of IFRS 9 - Financial instruments, the Company expects that these items will be designated as at FVTOCI: (a) investments in equity instruments (not held for trading) that are initially classified as available-for-sale and measured at fair value at the end of each reporting period in accordance with IAS 39 - Financial Instruments: Recognition and Measurement; and (b) financial assets initially classified as financial assets carried at cost. In addition, the investment in mutual funds initially classified as available-for-sale will be reclassified to financial asset at FVTPL.

## 6. OTHER MATTERS REQUIRING SUPPLEMENTARY EXPLANATION

### (1) The company should disclose the financial impact to the company if the company and its affiliated companies have incurred any financial or cash flow difficulties in 2011.

None.

### (2) Explanation of significant accounting policies:

#### 1. Revenue recognition and allowance for doubtful accounts

Revenue is measured at fair value as the transaction price agreed between HTC and buyers (considering trade discounts and volume discounts). Trade discounts include price protection, marketing development fund, and mail-in rebate. Allowances for doubtful accounts are estimated using aging analysis, which is reviewed and updated regularly by assessing the probability of recovering outstanding receivables, credit ratings and general economic factors. HTC assigns a rating to each customer based on their financial health. Allowance accounts of customers with good credit ratings are accrued by 1% - 5% when receivables are 31-90 days overdue and by 5% - 100% when receivables are over 91 days overdue. Individual determinations are made for customers with poor credit, which include making reasonable estimates of allowances for receivables not yet due.

#### 2. Inventory write-downs

Assessments of allowances for loss on decline in inventory value or loss on items retired are based on analysis of obsolete inventory items. HTC began on 1 January 2008 to adopt newly released Statement of Financial Accounting Standards No. 10 to assess inventory value on a category by category basis and write off as losses currently-held inventory with no practical market value.

#### 3. Accrued marketing expenses

Reasonable estimates for marketing expenses and trade discounts such as price protection, marketing development fund, and mail-in rebate are made according to contract stipulations and other related factors and recognized as marketing expenses, and are entered as expenses or deductions from revenue depending on their category.

#### 4. Reserve for warranty expenses

HTC provides a one- to two-year period of free warranty maintenance in after sales service. It makes reasonable estimates of possible amounts for that service and recognizes warranty liabilities based on historical experience and other relevant factors. Allocation to product warranty reserve stands at around 3-4% of revenue currently.

#### 5. Financial assets/liabilities at fair value through profit or loss

HTC's financial assets/liabilities at fair value through profit or loss comprise forward foreign exchange contracts. We calculated the fair value of each outstanding contract at the close of 2011 based on its maturation date, average closing rates, and swap point quotations provided by the Reuters.

#### 6. Available-for-sale financial assets

The available-for-sale financial assets are listed stocks and quasi money market fund. Estimates of fair value are based on the closing price for exchange- or OTC-listed securities on the balance sheet date.

## HTC's Code of Conduct

HTC's Code of Conduct is a guideline to provide high ethical standards for all employees in conducting HTC business activities. All employees of HTC Corp., including branches and subsidiary companies, must follow these ethical standards regardless of the employees' position, grade level, and location. This Code includes three major sections: the General Moral Imperative, Vendors/Suppliers and Customers Relationship, and Conflict of Interests.

The General Moral Imperative section requires that HTC commits to providing a safe and healthy work environment and equal opportunities, and that it establishes a behavioral code for the treatment of knowledge about the company's assets/properties/information.

The Vendors/Suppliers and Customers Relationship section requires that HTC commits to maintaining a fair, legal, and long-term relationship with its vendors/suppliers and customers to the benefit of all parties.

The Conflict of Interest section describes the behavioral rules for employees in situations of divided interest.

This Code is superior to any other local regulations except certain mandatory laws/acts issued by the local government. In such cases, the Talent Management Division should submit the specific local laws/acts to Corporate Talent Management Division in order to waive this specific regulation of the Code in that location. Otherwise, any violation of HTC Code of Conduct and applicable policies may cause disciplinary action up to and including the termination of employment. The employees are responsible for understanding and complying with the HTC Code of Conduct as well as other applicable HTC policies/rules. The manager must ensure that each employee endorses the contents of the Code of Conduct and should review this document with each employee periodically (at least once per year). Both parties should then sign in the appropriate space on the last page.

## Mandatory Contents

### 1.0 General Moral Imperatives

While maintaining a work culture that ensures the company's success, HTC strives to treat each employee fairly and with dignity. HTC is also committed to complying with the labor laws of each country it operates in. As well, each employee is responsible for complying with all applicable external and internal laws.

#### 1.1 Work Environments

HTC is committed to comply with local laws and regulations to establish a safe and healthy workplace, free from recognized hazards. Furthermore, HTC is thoroughly dedicated to providing employees with a workplace that is free of harassment (including sexual harassment) and discrimination. Any language or behavior

of intention to cause hostilities or violations of this policy is strictly prohibited and shall be reported to a responsible authority immediately.

#### 1.2 Corporate Confidentiality

During the term of employment with HTC and thereafter, each employee must hold in strict confidence and not disclose, directly or indirectly, any "Confidential Information" (as defined below) gained from HTC or its customers or vendors/suppliers to any third party without the prior written consent of HTC. "Confidential Information" must be used only for the purpose of executing work for HTC. "Confidential Information" shall mean all business, technical, operational or other information that is not generally known to the public and that an employee develops, has access to, and becomes acquainted with during the term of employment, whether or not such information (A) is owned by HTC, HTC's customers, vendors/suppliers, or any third party with which HTC desires to establish a business relationship with; (B) is in oral, written, drawn or electronic media form; (C) is subject matter for the application of patents, trademarks, copyrights, or other intellectual property rights; or (D) is labeled with "Confidential" or an equivalent word. Confidential information may include, but is not limited to the following:

- (1) Business plans, manufacturing and marketing plans, procurement plans, product roadmaps, product design records, product test plans and reports, product software and source codes, product pricing, product appearance, product specifications, tooling specifications, personnel information, financial information, customer lists, vendors/supplier lists, distributor lists, raw materials and product inventory information, all quality records, trade secrets, and other information related to the Company's business activities;
- (2) Documents, databases, or other related materials to any computer programs or any development stages thereof;
- (3) Discoveries, concepts, ideas, designs, sketches, engineering drawings, specifications, circuit layouts, circuit diagrams, mechanical drawings, flow charts, production processes, procedures, models, molds, samples, components, trouble shooting guides, chips and other know-how; and
- (4) Proprietary information of any third party (such as customers or vendors/suppliers) that the Company has a duty of confidentiality pursuant to contracts or required by any applicable laws.

#### 1.3 Protection of Property, HTC's Assets, and Personal Information

Copyrights, patents, trade marks/secrets, the terms of license agreements and any kind of intellectual property are under protection by related laws or regulations; violations are strictly prohibited. The Company's assets are not limited to physical equipment and facilities only, but also include technologies, trademarks, and other invisible concepts & confidential information. The utilization of company assets is for business matters and should be maintained, updated, and recorded properly and regularly. This is also applicable to the use of employee personal data. Those who are dealing with employee data shall consider the business matters and employees' privacy as well. The only exception that permits the revelation of employees' personal data is where such disclosure is required by government laws.

#### 1.4 Equal Opportunity

HTC's Employment Policy is to comply with all applicable laws. Hiring decisions are based on HTC's business needs and the qualifications of applicants, and HTC strives to provide equal employment opportunities for all applicants and employees without regard to non-job-related factors, such as race, color, social class, language, religion, political affiliation, national origin, gender, sexual orientation, marital status, appearance, disability, previous union membership etc.

Everyone must be treated with dignity and respect. This principle applies to all areas of employment, including, but not limited to, recruitment, hiring, training, promotion, compensation, benefits, transfer, and social and recreational programs.

All employees should be responsible for the data accuracy and quality in any type of report in all aspects of their daily work. Any intention of misleading or incorrect data is not acceptable and may cause disciplinary action.

#### 1.5 Political Activities

The Company encourages employees to participate in public activities as responsible citizens. However, HTC employees are prohibited from engaging in political activities on behalf of HTC. The Company is not allowed to donate or engage the political activities in most global operations. Therefore, employees must be aware of that their involvements are on an individual basis, and no contribution or donation to political candidates or parties can be made under the company name. Furthermore, employees must not organize or hold any speeches or activities connected to political activities on Company premises.

#### 2.0 Vendors/Suppliers and Customers Relationship

It is a basic principle in Company business operations to maintain a good relationship with our vendors/suppliers and customers.

#### 2.1 Firm and Rational Attitude

In securing and negotiating business, all employees should attempt to establish long-term relationships with our customers and vendors/suppliers by providing essential and accurate information about our products and services. Employees shall demonstrate their professionalism with a sincere, firm, and rational attitude while dealing with customers or vendors/suppliers. Conflicts caused by emotional languages or behaviors are strictly prohibited.

#### 2.2 Product Quality and Safety

The Company is committed to pursue excellence and maintain quality at all times. The Company strives to continuously improve the quality of products and service in compliance with the related safety regulations/laws in order to benefit our customers and vendors/suppliers and achieve world-class competitiveness. To maintain HTC's valuable reputation and the benefits to our customers and vendors/suppliers, all employees must comply with our quality processes and safety requirements.

#### 2.3 Performance of Contracts

Company contracts must be executed not only in accordance with the requirements of each contract, but also in compliance with all the laws and regulations applicable to our business. Any unfair or unreasonable regulation or condition should be avoided. Purchasing decisions must be made in the best interests of HTC by considering the vendors'/suppliers' suitability, quality, price, and delivery of products or services; any personal preferences are not allowed for special offers. Purchasing agreements/sales contracts and related evaluation information should be documented clearly and confidentially. The contract information of customers and vendors/suppliers, including but not limited to their names, price, delivery condition, payment terms, are as confidential as Company documents. Every employee must protect this confidential information from misuse and disclosure.

#### 2.4 Gifts, Entertainment and Business Courtesies

All employees or their immediately family members are not allowed to accept kickbacks, commissions, lavish gifts, or luxurious entertainment from customers, suppliers/vendors, or anyone in a business relationship in any kind of situation. However, gifts of a nominal value of less than NT\$1,500 or US\$50 (maximum one time per outside company per year.), such as small promotional items bearing the company's name/logo or a tin of tea, are not prohibited. The acceptance or giving of a gift should be reported to and approved by local management. Employees may provide or accept meals or entertainment if these activities are legitimate, consistent with accepted business practices and demonstrably help to build a business relationship. However, regardless of the amount, employees are not allowed to accept or give kickbacks and bribes, such as (but not limited to) any type of gift, cash, stock, bond or its equivalent, or to participate in any business courtesy that may compromise the employees' judgment or motivate the employees to perform acts prohibited by laws/regulations or HTC policies. The meal expense between/ among colleagues can not be treated as entertainment. However, expenditures incurred for entertainment immediately before, during, or after a business meeting are acceptable, if those who will enjoy the entertainment are from another country or continent.

#### 2.5 Business Travel

All employees are responsible for ensuring that their business travels are intended to further Company business interests, and the business travel and entertainment expenditures shall be reasonable, prudent, and in accordance with applicable Company policies. On behalf of the Company, employees should be aware that certain venues, whose entertainment nature or atmosphere may impact negatively on the Company's reputation, such as a sexually-oriented site or similar environment, are not appropriate for business-related meetings or activities. These venues are not acceptable even if the expenses incurred are not paid by the Company. If the common local custom is to engage in recreational activities (e.g. golf tournaments) for business purposes, then these activities should be minimized when possible in case of the expenses are not paid in personal.\*

### 3.0 Conflict of Interest

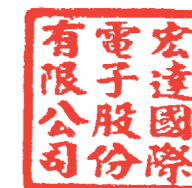
All employees must avoid any activity that is or has the appearance of being hostile, adverse, or competitive with the Company, or that interfaces with the proper performance of their duties, responsibilities or loyalties to the Company.

### 3.1 Outside Employment

All employees are prohibited to work either part-time or full-time for or receive payments of services from any competitors, customers, vendors/suppliers or subcontractors of HTC. If any employee is invited to serve as a lecturer, board member of an outside company, advisory board, committee or agency, he/she must get appropriate approval from the local top manager of Company in advance. Even if an invitation is not listed as above, permission from a top manager is required. In general, employees are not restricted from being members of the boards of charitable or community organizations. HTC also permits employees obtaining appropriate approval to serve as directors of an outside company that is invested in by HTC or is not a competitor or service provider of a competitor.

### 3.2 Inside Trading

All employees are not permitted, using their own names or the names of people with whom they have personal relationships, to engage in business ventures the same as or similar to HTC or to invest exceeding five percent of total market value in such a company. Employees are also prohibited from use so-called "Inside Information" to gain personal profit or to influence the independent judgment of business entities, such as investment in competitors, customers, vendors/suppliers or subcontractors. "Inside Information" comprises facts that an employee knows, but people outside of HTC may not know, which might be in written form or discussed orally in a meeting. Inside information may also be information received from another company, such as from customers, suppliers or companies with which HTC has a joint research or development program. Therefore, employees may never use inside information to trade or influence the trading of stocks of HTC or other companies and should also not provide "tips" or share inside information with any other person who might trade stock. Insider trading violates company policies and may subject the employee to criminal penalties in accordance with the government's regulations/laws.



HTC Corporation



Chairperson: Cher Wang

htc  
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