

## **HTC Corporation**

**Financial Statements for the  
Six Months Ended June 30, 2011 and 2012 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
HTC Corporation

We have audited the accompanying balance sheets of HTC Corporation (the "Company") as of June 30, 2011 and 2012 and the related statements of income, changes in stockholders' equity, and cash flows for the six months 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 June 30, 2011 and 2012, and the results of its operations and its cash flows for the six months 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 six months ended June 30, 2011 and 2012, and expressed an unqualified opinion on those statements in our report dated July 31, 2012.

Our audits also comprehended the translation of the 2012 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.

July 31, 2012

Notice to Readers

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

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

## HTC CORPORATION

### BALANCE SHEETS JUNE 30, 2011 AND 2012 (In Thousands, Except Par Value)

ASSETS	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 5)	\$ 108,424,022	\$ 63,454,317	\$ 2,123,283
Financial assets at fair value through profit or loss - current (Notes 2, 6 and 25)	-	181,288	6,066
Available-for-sale financial assets - current (Notes 2 and 7)	733,446	738,745	24,720
Notes and accounts receivable, net (Notes 2 and 9)	35,318,635	36,883,203	1,234,171
Accounts receivable from related parties, net (Notes 2 and 26)	34,303,572	33,399,283	1,117,594
Other current financial assets (Notes 10 and 26)	1,114,250	1,113,061	37,245
Inventories (Notes 2 and 11)	28,054,188	21,375,034	715,243
Prepayments (Notes 12 and 26)	5,220,575	8,680,381	290,459
Deferred income tax assets (Notes 2 and 23)	1,518,307	1,341,853	44,901
Other current assets	<u>1,039,319</u>	<u>458,582</u>	<u>15,345</u>
Total current assets	<u>215,726,314</u>	<u>167,625,747</u>	<u>5,609,027</u>
INVESTMENTS			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	591	189	6
Held-to-maturity financial assets - noncurrent (Notes 2 and 13)	206,285	202,922	6,790
Financial assets carried at cost - noncurrent (Notes 2 and 14)	515,861	515,861	17,262
Investments accounted for by the equity method (Notes 2 and 15)	12,932,954	40,533,489	1,356,316
Prepayments for investments (Notes 2 and 15)	<u>1,899,116</u>	<u>296,916</u>	<u>9,935</u>
Total long-term investments	<u>15,554,807</u>	<u>41,549,377</u>	<u>1,390,309</u>
PROPERTIES (Notes 2, 16 and 26)			
Cost			
Land	7,462,281	7,462,489	249,707
Buildings and structures	3,616,899	9,417,915	315,138
Machinery and equipment	6,152,263	7,697,805	257,581
Molding equipment	172,632	-	-
Computer equipment	355,067	420,725	14,078
Transportation equipment	6,570	6,570	220
Furniture and fixtures	185,071	229,122	7,667
Leased assets	4,712	4,712	157
Leasehold improvements	<u>178,586</u>	<u>217,616</u>	<u>7,282</u>
	18,134,081	25,456,954	851,830
Less: Accumulated depreciation	(5,360,892)	(6,258,379)	(209,415)
Prepayments for construction-in-progress and equipment-in-transit	<u>997,397</u>	<u>305,761</u>	<u>10,231</u>
Properties, net	<u>13,770,586</u>	<u>19,504,336</u>	<u>652,646</u>
INTANGIBLE ASSETS			
Patents (Note 2)	<u>2,254,448</u>	<u>1,873,144</u>	<u>62,678</u>
OTHER ASSETS			
Refundable deposits	76,747	76,707	2,567
Deferred charges (Note 2)	16,150	104,244	3,488
Deferred income tax assets (Notes 2 and 23)	3,587,321	3,293,417	110,203
Restricted assets - noncurrent (Note 27)	63,900	34,100	1,141
Others (Notes 2, 12 and 19)	<u>5,127,002</u>	<u>7,652,091</u>	<u>256,051</u>
Total other assets	<u>8,871,120</u>	<u>11,160,559</u>	<u>373,450</u>
TOTAL	<u>\$ 256,177,275</u>	<u>\$ 241,713,163</u>	<u>\$ 8,088,110</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss - current (Notes 2, 6 and 25)	\$ 155,880	\$ -	\$ -
Hedging derivative liabilities - current (Notes 2, 8 and 25)	-	15,871	531
Notes and accounts payable	70,988,298	72,813,319	2,436,451
Accounts payable to related parties (Note 26)	3,089,137	1,857,270	62,147
Income tax payable (Notes 2 and 23)	5,922,227	810,402	27,117
Accrued expenses (Notes 17 and 26)	46,568,231	38,353,434	1,283,367
Payable for purchase of equipment (Note 26)	208,000	2,116,110	70,809
Other current liabilities (Notes 2, 18 and 26)	<u>45,876,072</u>	<u>49,928,743</u>	<u>1,670,696</u>
Total current liabilities	<u>172,807,845</u>	<u>165,895,149</u>	<u>5,551,118</u>
OTHER LIABILITIES			
Guarantee deposits received	<u>628</u>	<u>598</u>	<u>20</u>
Total liabilities	<u>172,808,473</u>	<u>165,895,747</u>	<u>5,551,138</u>
STOCKHOLDERS' EQUITY (Note 20)			
Capital stock - NT\$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 817,653 thousand shares in 2011 and 852,052 thousand shares in 2012			
Common stock	8,176,532	8,520,521	285,110
Stock dividends for distribution	443,989	-	-
Capital surplus			
Additional paid-in capital - issuance of shares in excess of par	10,777,623	14,809,608	495,553
Treasury stock transactions	-	1,730,458	57,904
Long-term equity investments	18,411	18,037	604
Merger	24,710	24,423	817
Employee stock options	1,800,608	-	-
Expired stock options	-	37,068	1,241
Other	4,205,796	-	-
Retained earnings			
Legal reserve	10,273,674	16,471,254	551,155
Special reserve	580,856	-	-
Accumulated earnings	54,357,978	48,765,769	1,631,780
Other equity			
Cumulative translation adjustments (Note 2)	(439,427)	(508,471)	(17,014)
Net loss not recognized as pension cost	(121)	(293)	(10)
Unrealized gains on financial instruments (Notes 2, 8 and 25)	666	14,532	486
Treasury stock (Notes 2 and 21)	<u>(6,852,493)</u>	<u>(14,065,490)</u>	<u>(470,654)</u>
Total stockholders' equity	<u>83,368,802</u>	<u>75,817,416</u>	<u>2,536,972</u>
TOTAL	<u>\$ 256,177,275</u>	<u>\$ 241,713,163</u>	<u>\$ 8,088,110</u>

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

# HTC CORPORATION

## STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2011 AND 2012 (In Thousands, Except Earnings Per Share)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 26)			
Sales	\$ 224,262,782	\$ 153,064,599	\$ 5,121,787
Sales returns	(997,983)	(1,156,407)	(38,695)
Net sales	223,264,799	151,908,192	5,083,092
Other operating revenues	413,450	1,051,836	35,196
Total revenues	223,678,249	152,960,028	5,118,288
COST OF REVENUES (Notes 10, 22 and 26)	163,112,867	118,402,858	3,961,950
GROSS PROFIT	60,565,382	34,557,170	1,156,338
UNREALIZED INTERCOMPANY GAINS	(503,942)	(1,205,760)	(40,347)
REALIZED INTERCOMPANY GAINS	345,455	1,151,531	38,532
REALIZED GROSS PROFIT	60,406,895	34,502,941	1,154,523
OPERATING EXPENSES (Notes 22 and 26)			
Selling and marketing	14,979,312	12,168,933	407,193
General and administrative	2,540,865	3,227,587	107,999
Research and development	9,235,121	7,664,924	256,481
Total operating expenses	26,755,298	23,061,444	771,673
OPERATING INCOME	33,651,597	11,441,497	382,850
NONOPERATING INCOME AND GAINS			
Interest income	287,618	285,381	9,550
Gains on equity-method investments (Notes 2 and 15)	1,625,478	588,326	19,686
Gain on sale of investments, net	29	-	-
Exchange gains (Note 2)	942,023	395,775	13,243
Valuation gain on financial assets, net (Notes 2, 6 and 8)	-	183,411	6,137
Other	89,843	196,191	6,565
Total nonoperating income and gains	2,944,991	1,649,084	55,181

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# HTC CORPORATION

## STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2011 AND 2012 (In Thousands, Except Earnings Per Share)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
NONOPERATING EXPENSES AND LOSSES			
Interest expense	\$ -	\$ 320	\$ 11
Valuation loss on financial instruments, net (Notes 2 and 6)	155,880	-	-
Other	<u>6,232</u>	<u>29,528</u>	<u>988</u>
Total nonoperating expenses and losses	<u>162,112</u>	<u>29,848</u>	<u>999</u>
INCOME BEFORE INCOME TAX	36,434,476	13,060,733	437,032
INCOME TAX (Notes 2 and 23)	<u>(4,077,511)</u>	<u>(1,191,470)</u>	<u>(39,868)</u>
NET INCOME	<u>\$ 32,356,965</u>	<u>\$ 11,869,263</u>	<u>\$ 397,164</u>

	<u>2011</u>		<u>2012</u>		
	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 24)	<u>\$ 42.93</u>	<u>\$ 38.13</u>	<u>\$ 15.68</u>	<u>\$ 0.52</u>	<u>\$ 14.25</u> <u>\$ 0.48</u>
DILUTED EARNINGS PER SHARE (Note 24)	<u>\$ 42.71</u>	<u>\$ 37.93</u>	<u>\$ 15.62</u>	<u>\$ 0.52</u>	<u>\$ 14.19</u> <u>\$ 0.47</u>

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

(Concluded)

HTC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
SIX MONTHS ENDED JUNE 30, 2011 AND 2012  
(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus							Other Equity							Total
	Issued and Outstanding Common Stock	Stock Dividends for Distribution	Issuance of Shares in Excess of Par	Treasury Stock Transactions	Long-term Equity Investments	Merger	Employee Stock Options	Expired Stock Options	Other	Retained Earnings			Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized		
										Legal Reserve	Special Reserve	Accumulated Earnings			Gains (Losses) on Financial Instruments	Treasury Stock	
BALANCE, JANUARY 1, 2011	\$ 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 for the six months ended June 30, 2011	-	-	-	-	-	-	-	-	-	-	-	32,356,965	-	-	-	-	32,356,965
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	140,422	-	-	-	140,422
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,551	-	1,551
Compensation cost recognized for the transfer of treasury stock to employees	-	-	-	-	-	-	1,800,608	-	-	-	-	-	-	-	-	-	1,800,608
BALANCE, JUNE 30, 2011	<u>\$ 8,176,532</u>	<u>\$ 443,989</u>	<u>\$ 10,777,623</u>	<u>\$ -</u>	<u>\$ 18,411</u>	<u>\$ 24,710</u>	<u>\$ 1,800,608</u>	<u>\$ -</u>	<u>\$ 4,205,796</u>	<u>\$ 10,273,674</u>	<u>\$ 580,856</u>	<u>\$ 54,357,978</u>	<u>\$ (439,427)</u>	<u>\$ (121)</u>	<u>\$ 666</u>	<u>\$ (6,852,493)</u>	<u>\$ 83,368,802</u>
BALANCE, JANUARY 1, 2012	\$ 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
Appropriation of the 2011 net earnings																	
Legal reserve	-	-	-	-	-	-	-	-	-	6,197,580	-	(6,197,580)	-	-	-	-	-
Special reserve reversed	-	-	-	-	-	-	-	-	-	-	(580,856)	580,856	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	-	-	(33,249,085)	-	-	-	-	(33,249,085)
Net income for the six months ended June 30, 2012	-	-	-	-	-	-	-	-	-	-	-	11,869,263	-	-	-	-	11,869,263
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,624	-	2,624
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	(540,605)	-	-	-	(540,605)
Change in unrealized loss on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(17,994)	-	(17,994)
Adjustment due to the movement of investees' other equity under the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,963	-	26,963
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,700,346)	(3,700,346)
BALANCE, JUNE 30, 2012	<u>\$ 8,520,521</u>	<u>\$ -</u>	<u>\$ 14,809,608</u>	<u>\$ 1,730,458</u>	<u>\$ 18,037</u>	<u>\$ 24,423</u>	<u>\$ -</u>	<u>\$ 37,068</u>	<u>\$ -</u>	<u>\$ 16,471,254</u>	<u>\$ -</u>	<u>\$ 48,765,769</u>	<u>\$ (508,471)</u>	<u>\$ (293)</u>	<u>\$ 14,532</u>	<u>\$ (14,065,490)</u>	<u>\$ 75,817,416</u>

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

## HTC CORPORATION

### STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2011 AND 2012 (In Thousands of U.S. Dollars)

	Capital Stock Issued and Outstanding Common Stock	Issuance of Shares in Excess of Par	Treasury Stock Transactions	Capital Surplus			Retained Earnings			Other Equity				Total
				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 Gains on Financial Instruments	Treasury Stock	
BALANCE, JANUARY 1, 2012	\$ 285,110	\$ 495,553	\$ 57,904	\$ 604	\$ 817	\$ 1,241	\$ 343,774	\$ 19,436	\$ 2,535,129	\$ 1,076	\$ (10)	\$ 98	\$ (346,834)	\$ 3,393,898
Appropriation of the 2011 net earnings														
Legal reserve	-	-	-	-	-	-	207,381	-	(207,381)	-	-	-	-	-
Special reserve reversed	-	-	-	-	-	-	-	(19,436)	19,436	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(1,112,568)	-	-	-	-	(1,112,568)
Net income for the six months ended June 30, 2012	-	-	-	-	-	-	-	-	397,164	-	-	-	-	397,164
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	88	-	88
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(18,090)	-	-	-	(18,090)
Change in unrealized loss on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	(602)	-	(602)
Adjustment due to the movement of investees' other equity under the equity method	-	-	-	-	-	-	-	-	-	-	-	902	-	902
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(123,820)	(123,820)
BALANCE, JUNE 30, 2012	<u>\$ 285,110</u>	<u>\$ 495,553</u>	<u>\$ 57,904</u>	<u>\$ 604</u>	<u>\$ 817</u>	<u>\$ 1,241</u>	<u>\$ 551,155</u>	<u>\$ -</u>	<u>\$ 1,631,780</u>	<u>\$ (17,014)</u>	<u>\$ (10)</u>	<u>\$ 486</u>	<u>\$ (470,654)</u>	<u>\$ 2,536,972</u>

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



# HTC CORPORATION

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2011 AND 2012 (In Thousands)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 32,356,965	\$ 11,869,263	\$ 397,164
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	427,341	580,950	19,440
Amortization	140,041	264,153	8,839
Compensation cost recognized for the transfer of treasury stock to employees	1,800,608	-	-
Amortization of premium on financial assets	1,661	1,675	56
Prepaid pension costs	(14,172)	(10,737)	(359)
Gains on equity-method investments	(1,625,478)	(588,326)	(19,686)
Cash dividends received from equity method investees	-	1,744	58
Gain on sale of investments, net	(29)	-	-
Transfer of properties to expenses	59	6,323	212
Unrealized gain on financial instruments	-	(2,123)	(71)
Deferred income tax assets	(1,760,618)	478,552	16,013
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	606,156	75,580	2,529
Notes and accounts receivable	(139,597)	(4,843,427)	(162,069)
Accounts receivable from related parties	(6,117,181)	(422,014)	(14,121)
Inventories	(6,133,696)	4,014,286	134,324
Prepayments	(1,649,299)	(434,457)	(14,538)
Other current assets	(582,265)	99,697	3,336
Other current financial assets	(394,827)	270,866	9,064
Other assets-others	(2,469,729)	(688,432)	(23,036)
Notes and accounts payable	13,285,862	(42,055)	(1,407)
Accounts payable to related parties	1,742,156	(1,781,961)	(59,627)
Income tax payable	(494,440)	(8,842,688)	(295,891)
Accrued expenses	19,150,453	(3,792,161)	(126,892)
Other current liabilities	2,872,641	(1,143,343)	(38,258)
Net cash provided by (used in) operating activities	51,002,612	(4,928,635)	(164,920)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of available-for-sale financial assets	(490,000)	-	-
Proceeds of the sale of available-for-sale financial assets	200,029	-	-
Increase in investments accounted for by the equity method	(3,082,230)	(3,700,417)	(123,822)
Purchase of properties	(3,316,515)	(3,120,562)	(104,419)
Decrease in refundable deposits	2,450	2,187	73

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# HTC CORPORATION

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2011 AND 2012 (In Thousands)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Decrease in restricted assets	\$ -	\$ 29,800	\$ 997
Acquisition of intangible assets	(2,174,400)	-	-
Net cash used in investing activities	(8,860,666)	(6,788,992)	(227,171)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in guarantee deposits received	-	(30)	(1)
Purchase of treasury stock	-	(3,700,346)	(123,820)
Net cash used in financing activities	-	(3,700,376)	(123,821)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	42,141,946	(15,418,003)	(515,912)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	66,282,076	78,872,320	2,639,195
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 108,424,022</u>	<u>\$ 63,454,317</u>	<u>\$ 2,123,283</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid during the period			
Interest paid (excluding capitalized interest)	\$ -	\$ 320	\$ 11
Income tax	<u>\$ 6,332,569</u>	<u>\$ 9,555,605</u>	<u>\$ 319,746</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Transfer of retained earnings to stock dividends for distribution	\$ 403,934	\$ -	\$ -
Transfer of assets leased to others to properties	<u>\$ 50,828</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of accrued stock bonus to employees to stock dividends for distribution and other capital surplus	<u>\$ 4,245,851</u>	<u>\$ -</u>	<u>\$ -</u>
<b>INCREASE IN LONG-TERM INVESTMENTS</b>			
Increase in investments accounted for by the equity method	\$ 3,083,882	\$ 3,700,417	\$ 123,822
Increase in payable for purchase of investments	(1,652)	-	-
Cash paid for increase in long-term investments	<u>\$ 3,082,230</u>	<u>\$ 3,700,417</u>	<u>\$ 123,822</u>
<b>PURCHASE OF PROPERTIES</b>			
Cost of properties purchased	\$ 3,205,928	\$ 4,887,900	\$ 163,557
Decrease (increase) in payable for purchase of equipment	110,587	(1,767,338)	(59,138)
Cash paid for purchase of properties	<u>\$ 3,316,515</u>	<u>\$ 3,120,562</u>	<u>\$ 104,419</u>

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

(Concluded)

# HTC CORPORATION

## NOTES TO FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2012 (In Thousands, Unless Stated Otherwise)

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### 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, assemble, process, sell smart handheld devices and provide after-sales service. In March 2002, the Company’s stock was listed on the Taiwan Stock Exchange. On November 19, 2003, the Company listed some of its shares of stock on the Luxembourg Stock Exchange in the form of Global Depositary Receipts.

The Company had 11,464 and 13,337 employees as of June 30, 2011 and 2012, respectively.

### 2. SUMMARY OF 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”).

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.

Significant accounting policies are summarized as follows:

#### Foreign Currencies

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

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

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

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

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

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

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

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

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

### **Accounting Estimates**

Under 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, marketing expenses, income tax, royalty, pension cost, loss on pending litigations, product warranties, contingent loss on purchase order, bonuses to employees, etc. Actual results may differ from these estimates.

### **Current/Noncurrent Assets and Liabilities**

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

### **Financial Assets/Liabilities at Fair Value through Profit or Loss**

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability on its balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. 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.

### **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 with those of financial assets at FVTPL.

Cash dividends are recognized upon the shareholders' resolutions, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity.

### **Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts**

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

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 examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

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:

- Significant financial difficulty of the debtor;

- Accounts receivable becoming overdue; or
- It becoming probable that the debtor will enter bankruptcy or financial re-organization.

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.

### **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. Inventories are recorded at weighted-average cost on the balance sheet date.

### **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.

### **Hedge Accounting**

Derivatives that are designated and effective as hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item as follows:

#### **a. Fair value hedge**

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

b. Cash flow hedge

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same year or years during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future; the amount that is not expected to be recovered is reclassified into profit or loss.

c. Hedge of a net investment in a foreign operation

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss on disposal of the foreign operation.

### **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 the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

### **Investments Accounted for by the Equity Method**

Investments in which the Company holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

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.

### **Properties**

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

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

Depreciation is provided on a straight-line basis over estimated useful lives in accordance with the tax law and regulations in the Republic of China: buildings and structures (including auxiliary equipment) - 3 to 50 years; machinery, computer and equipment - 3 to 5 years; furniture and fixtures - 3 to 5 years; transportation equipment - 5 years; and leasehold improvements - 3 years.

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

The related cost (including revaluation increment) and accumulated depreciation are derecognized from the balance sheet upon 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.

### **Intangible Assets**

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

### **Deferred Charges**

Deferred charges are deferred license fees. Deferred license fees are amortized on a straight-line basis over 5 years.

### **Asset Impairment**

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

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

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



### **Accrued Marketing Expenses**

The Company accrues marketing expenses on the basis of agreements 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.

### **Warranty Provisions**

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

### **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.

### **Product-related Costs**

The cost of products consists of costs of goods sold (material, labor and allocated manufacturing cost), inventory write-downs (or reversal of these write-downs), warranty expenses and contingent loss on purchase orders.

### **Pension Plan**

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

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

### **Income Tax**

The Company applies 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 shareholders' 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 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 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 shareholders approve to retain the earnings.

## **Stock-based Compensation**

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for 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.

## **Treasury Stock**

Under SFAS No. 30, "Accounting for Treasury Stocks," when the Company acquires its outstanding shares which haven't been disposed or retired, treasury stock is stated at cost and shown as a deduction in shareholders' equity. When treasury stocks are sold, if 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 the remainder, if any, debited to retained earnings. The carrying value of treasury stocks calculated by using the weighted-average approach according to the purpose.

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. An excess of the carrying value of treasury stock over the sum of its par value and premium on stock first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. An excess of the sum of the par value and premium on stock of treasury stock over its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

## **Reclassifications**

Certain 2011 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the six months ended June 30, 2012.

## **3. TRANSLATION INTO U.S. DOLLARS**

The financial statements are stated in New Taiwan dollars. The translation of the 2012 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$29.885 to US\$1.00 quoted by Reuters on June 30, 2012. 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**

### **Financial Instruments**

On January 1, 2011, the Company adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions includes (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 six months ended June 30, 2012.

## 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." This accounting change just resulted conformed to the disclosure requirement and provided the operating segments disclosure.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	<u>NT\$</u>	<u>NT\$</u>	<u>US\$</u> <u>(Note 3)</u>
Cash on hand	\$ 1,000	\$ 1,010	\$ 34
Checking accounts	476	4,178	140
Demand deposits	6,327,661	20,929,616	700,338
Time deposits	<u>102,094,885</u>	<u>42,519,513</u>	<u>1,422,771</u>
	<u>\$ 108,424,022</u>	<u>\$ 63,454,317</u>	<u>\$ 2,123,283</u>

On time deposits, interest rates ranged from 0.15% to 1.265% and 0.15% to 1.1% as of June 30, 2011 and 2012, 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 June 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	<u>NT\$</u>	<u>NT\$</u>	<u>US\$</u> <u>(Note 3)</u>
Derivatives - financial assets			
Exchange contracts	<u>\$ -</u>	<u>\$ 181,288</u>	<u>\$ 6,066</u>
Derivatives - financial liabilities			
Exchange contracts	<u>\$ 155,880</u>	<u>\$ -</u>	<u>\$ -</u>

The Company entered into derivative contracts during the six months ended June 30, 2011 and 2012 to manage exposures related to exchange rate fluctuations. The outstanding forward exchange contracts that did not meet the criteria for hedge accounting as of June 30, 2011 and 2012 were as follows:

## Forward Exchange Contracts

<b>2011</b>				
	<b>Buy/Sell</b>	<b>Currency</b>	<b>Settlement Period/Date</b>	<b>Contract Amount</b>
Forward exchange contracts	Sell	EUR/USD	2011.07.06-2011.08.31	EUR 310,400
Forward exchange contracts	Sell	GBP/USD	2011.07.06-2011.08.24	GBP 40,500
Forward exchange contracts	Sell	USD/NTD	2011.07.06-2011.07.22	USD 70,000
<b>2012</b>				
	<b>Buy/Sell</b>	<b>Currency</b>	<b>Settlement Period/Date</b>	<b>Contract Amount</b>
Forward exchange contracts	Sell	EUR/USD	2012.07.06-2012.09.28	EUR 358,000
Forward exchange contracts	Sell	GBP/USD	2012.07.06-2012.08.29	GBP 20,600
Forward exchange contracts	Sell	USD/NTD	2012.07.02-2012.07.06	USD 30,000
Forward exchange contracts	Buy	USD/RMB	2012.07.11-2012.09.26	USD 295,373
Forward exchange contracts	Buy	USD/JPY	2012.07.06-2012.09.12	USD 116,647
Forward exchange contracts	Buy	USD/CAD	2012.07.11-2012.08.01	USD 9,387

Net loss on derivative financial instruments for the six months ended June 30, 2011 was NT\$947,064 thousand, including realized settlement loss of NT\$791,184 thousand and valuation loss of NT\$155,880 thousand, and were classified as exchange loss and valuation loss on financial instruments, respectively.

Net gain on derivative financial instruments for the six months ended June 30, 2012 was NT\$773,019 thousand (US\$25,866 thousand), including realized settlement gain of NT\$591,731 thousand (US\$19,800 thousand) and valuation gain of NT\$181,288 thousand (US\$6,066 thousand), and were classified as exchange gain and valuation gain on financial instruments, respectively. Note 25 has more information.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of June 30, 2011 and 2012 were as follows:

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Mutual funds	\$ 733,446	\$ 738,745	\$ 24,720
Domestic quoted stocks	591	189	6
Less: Current portion	<u>(733,446)</u>	<u>(738,745)</u>	<u>(24,720)</u>
	<u>\$ 591</u>	<u>\$ 189</u>	<u>\$ 6</u>

## 8. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

Hedging derivative financial instruments as of June 30, 2011 and 2012 were as follows:

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Hedging derivative liabilities	<u>\$ -</u>	<u>\$ 15,871</u>	<u>\$ 531</u>

The Company's foreign - currency cash flows that it is more likely than not to realize may lead to risks arising from the changes of foreign - currency financial assets and liabilities and estimated future cash flows due to the exchange rate fluctuations. The Company assesses the risks may be significant; therefore, the Company entered into derivative contracts to hedge foreign - currency exchange risk. The outstanding forward exchange contract as of June 30, 2012 was as follows:

	Buy/Sell	Currency	2012	Contract Amount
			Settlement Period/Date	
Forward exchange contracts	Buy	USD/JPY	2013.03.28	USD 95,356

Movements of hedging derivative financial instruments for the six months ended June 30, 2011 and 2012 were as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Balance, beginning of period	\$ -	\$ -	\$ -
Add: Recognized in profit or loss	-	2,123	71
Less: Valuation unrealized loss	<u>-</u>	<u>(17,994)</u>	<u>(602)</u>
Balance, end of period	<u>\$ -</u>	<u>\$ (15,871)</u>	<u>\$ (531)</u>

The valuation unrealized loss was recognized as unrealized loss on financial instruments in stockholders' equity.

## 9. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of June 30, 2011 and 2012 were as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ -	\$ 3,462	\$ 116
Accounts receivable	36,387,264	38,938,827	1,302,955
Less: Allowance for doubtful accounts	<u>(1,068,629)</u>	<u>(2,059,086)</u>	<u>(68,900)</u>
	<u>\$ 35,318,635</u>	<u>\$ 36,883,203</u>	<u>\$ 1,234,171</u>

## 10. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of June 30, 2011 and 2012 were as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 1,033,660	\$ 1,046,953	\$ 35,033
Agency payments	48,350	47,037	1,574
Interest receivable	<u>32,240</u>	<u>19,071</u>	<u>638</u>
	<u>\$ 1,114,250</u>	<u>\$ 1,113,061</u>	<u>\$ 37,245</u>

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

## 11. INVENTORIES

Inventories as of June 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 984,079	\$ 1,809,787	\$ 60,559
Work-in-process	4,610,389	1,646,090	55,081
Semi-finished goods	4,046,969	3,700,431	123,822
Raw materials	16,559,201	13,190,318	441,369
Goods in transit	<u>1,853,550</u>	<u>1,028,408</u>	<u>34,412</u>
	<u>\$ 28,054,188</u>	<u>\$ 21,375,034</u>	<u>\$ 715,243</u>

As of June 30, 2011 and 2012, the allowance for inventory devaluation were NT\$4,223,463 thousand and NT\$3,228,459 thousand (US\$108,029 thousand), respectively.

The write-down of inventories to their net realizable value amounting to NT\$1,496,581 thousand and NT\$41,618 thousand (US\$1,393 thousand) were recognized as cost of sales for the six months ended June 30, 2011 and 2012, respectively.

## 12. PREPAYMENTS

Prepayments as of June 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 4,296,291	\$ 6,148,807	\$ 205,749
Prepayments to suppliers	219,091	851,315	28,486
Marketing	188,048	835,518	27,958
Software and hardware maintenance	90,966	628,839	21,042
Service	206,663	90,385	3,024
Molding equipment	117,202	78,922	2,641
Others	<u>102,314</u>	<u>46,595</u>	<u>1,559</u>
	<u>\$ 5,220,575</u>	<u>\$ 8,680,381</u>	<u>\$ 290,459</u>

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent in accordance with their nature. As of June 30, 2011 and 2012, noncurrent prepayments of NT\$3,360,537 thousand and NT\$5,173,105 thousand (US\$173,100 thousand), respectively, had been classified as other assets (Note 30 has more information).

Prepayments to suppliers were primarily for discount purposes and were classified as current or noncurrent in accordance with their nature. As of June 30, 2011 and 2012, noncurrent prepayments of NT\$1,593,348 thousand and NT\$2,251,382 thousand (US\$75,335 thousand), respectively, had been classified as other assets.

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

### 13. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets as of June 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Corporate bonds	<u>\$ 206,285</u>	<u>\$ 202,922</u>	<u>\$ 6,790</u>

In 2010, the Company bought the corporate bonds issued by Nan Ya Plastics Corporation and these bonds will mature in 2013. Half of the bonds will be repaid in November 2012, with an effective interest rate of 0.90%.

### 14. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of June 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 16,731
BandRich Inc.	15,861	15,861	531
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>40</u>
	517,053	517,053	17,302
Less: Accumulated impairment loss	<u>(1,192)</u>	<u>(1,192)</u>	<u>(40)</u>
	<u>\$ 515,861</u>	<u>\$ 515,861</u>	<u>\$ 17,262</u>

In January 2007, the Company acquired 10% equity interest in Hua-Chuang Automobile Information Technical Center Co., Ltd. for NT\$500,000 thousand.

On March 1, 2004, the Company merged with IA Style, Inc. and acquired 1.82% equity interest in Answer Online, Inc. with NT\$1,192 thousand 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.

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. In July 2010, the Company transferred this investment to "financial assets carried at cost" using book value.

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.

## 15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of June 30, 2011 and 2012 were as follows:

	2011		2012		
	Carrying Value	Ownership Percentage	Carrying Value		Ownership Percentage
	NT\$		NT\$	US\$ (Note 3)	
Unquoted equity investments					
H.T.C. (B.V.I.) Corp.	\$ 2,223,839	100.00	\$ 2,944,820	\$ 98,538	100.00
Communication Global Certification Inc.	440,245	100.00	505,405	16,912	100.00
High Tech Computer Asia Pacific Pte. Ltd.	9,427,167	100.00	27,258,960	912,128	100.00
HTC Investment Corporation	300,638	100.00	301,060	10,074	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	1.00
HTC I Investment Corporation	295,421	100.00	295,660	9,893	100.00
HTC Holding Cooperatief U.A.	13	1.00	13	1	1.00
Huada Digital Corporation	245,569	100.00	248,061	8,301	50.00
HTC Investment One (BVI) Corporation	-	-	8,979,448	300,467	100.00
Prepayments for long-term investments	<u>1,899,116</u>		<u>296,916</u>	<u>9,935</u>	
	<u>\$ 14,832,070</u>		<u>\$ 40,830,405</u>	<u>\$ 1,366,251</u>	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp., of which main business activity were international holding investment, and accounted for this investment by the equity method. In 2011, the Company made a new investment of US\$57,800 thousand in H.T.C. (B.V.I.) Corp. The Company made a new investment of US\$3,175 thousand in H.T.C. (B.V.I.) Corp in 2012. As of June 30, 2012, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to US\$86,227 thousand. Because the registration of this investment had not been completed as of June 30, 2012, an amount of US\$3,175 thousand was temporarily accounted for under "prepayments for long-term investments."

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc., of which main business activities were telecom testing and certification services, and accounted for this investment by the equity method.

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. ("High Tech Asia"), of which main business activities were international holding investment, marketing, repair and after-sales services, and accounted for this investment by the equity method. In 2011, the Company increased this investment by US\$393,316 thousand. The Company increased this investment by US\$115,000 thousand in 2012. As of June 30, 2012, the Company's investment in High Tech Asia had amounted to US\$714,534 thousand.

In July 2008, the Company acquired 100% equity interest in HTC Investment Corporation, of which the main business activity was general investing, for NT\$300,000 thousand and accounted for this investment by the equity method.

In December 2007, the Company and its subsidiary, High Tech Computer Asia Pacific Pte. Ltd., acquired equity interests of 1% and 99%, respectively, in PT. High Tech Computer Indonesia, of which main business activities were marketing, repair and after-sales services, for US\$2 thousand and US\$186 thousand, respectively. As a result, the Company has accounted for this investment by the equity method.

In September 2009, the Company acquired 100% equity interest in HTC I Investment Corporation, of which the main business activity was general investing, for NT\$295,000 thousand and has since accounted for this investment by the equity method.

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, of which main business activity were international holding investment, for EUR0.28 thousand and EUR27.72 thousand,



respectively. As a result, the Company has accounted for this investment by the equity method since the acquisition date.

In December 2009, the Company acquired 100% equity interest in Huada Digital Corporation (“Huada”), of which main business activities were software services, 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. As of June 30, 2012, the Company’s investment in Huada had amounted to NT\$250,000 thousand (US\$8,365 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%. In March 2012, Huada held a stockholders’ meeting and re-elected its directors and supervisors. As a result, the investment type was changed to joint venture and the Company accounted for this investment by the equity method.

In 2011, the Company made a new investment of US\$320,002 thousand in HTC Investment One (BVI) Corporation, of which main business activities were acquired 100% equity interests in S3 Graphics Co., Ltd. and general investing, and accounted for this investment by the equity method. The Company increased this investment by US\$5,346 thousand in 2012. As of June 30, 2012, the Company’s investment in HTC Investment One (BVI) Corporation amounted to US\$325,348 thousand. Because the registration of this investment had not been completed as of June 30, 2012, an amount of US\$5,346 thousand was temporarily accounted for under “prepayments for long-term investments.”

In February 2012, the Company acquired 100% equity interest in FunStream Corporation, of which the main business activity were design, research and development of three-D technology, for NT\$45,090 thousand (US\$1,509 thousand) and accounted for this investment by the equity method. Because the registration of this investment had not been completed as of June 30, 2012, the amount was temporarily accounted for under “prepayments for long-term investments.”

For the six months ended June 30, 2011 and 2012, gains (losses) on equity-method investments were as follows:

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
H.T.C. (B.V.I.) Corp.	\$ 8,216	\$ 51,103	\$ 1,710
Communication Global Certification Inc.	40,749	41,500	1,389
High Tech Computer Asia Pacific Pte. Ltd.	1,575,237	1,004,099	33,599
HTC Investment Corporation	428	737	25
HTC I Investment Corporation	336	493	16
Huada Digital Corporation	512	(2,628)	(88)
HTC Investment One (BVI) Corporation	-	(506,928)	(16,963)
FunStream Corporation	-	(50)	(2)
	<u>\$ 1,625,478</u>	<u>\$ 588,326</u>	<u>\$ 19,686</u>

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

Under the revised SFAS 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 six months ended June 30, 2011 and 2012. All intercompany balances and transactions have been eliminated.

## 16. PROPERTIES

Properties as of June 30, 2011 and 2012 were as follows:

	2011	2012			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$			NT\$	US\$ (Note 3)
Land	\$ 7,462,281	\$ 7,462,489	\$ -	\$ 7,462,489	\$ 249,707
Buildings and structures	2,753,755	9,417,915	1,019,544	8,398,371	281,023
Machinery and equipment	2,308,230	7,697,805	4,663,759	3,034,046	101,524
Computer equipment	75,915	420,725	323,203	97,522	3,263
Transportation equipment	4,256	6,570	3,247	3,323	111
Furniture and fixtures	61,063	229,122	147,601	81,521	2,728
Leased assets	393	4,712	4,712	-	-
Leasehold improvements	107,296	217,616	96,313	121,303	4,059
Prepayments for construction-in-progress and equipment-in-transit	997,397	305,761	-	305,761	10,231
	<u>\$ 13,770,586</u>	<u>\$ 25,762,715</u>	<u>\$ 6,258,379</u>	<u>\$ 19,504,336</u>	<u>\$ 652,646</u>

In April 2011, the Company bought land with areas of approximately 49 thousand square meters adjacent to its Taoyuan plant for NT\$1,770,000 thousand, which was based on the appraisal report, from an unrelated party to build up a complete HTC technology park and meet the future capacity expansion requirements.

The construction of a new office building and factory were completed in June 2012, and a construction amount of NT\$5,615,958 thousand (US\$187,919 thousand) was transferred from prepayments for construction in progress to buildings and structures.

There were no interests capitalized for the six months ended June 30, 2011 and 2012, respectively.

## 17. ACCRUED EXPENSES

Accrued expenses as of June 30, 2011 and 2012 were as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 27,532,615	\$ 19,773,665	\$ 661,659
Bonus to employees	8,107,066	8,458,522	283,036
Salaries and bonuses	3,959,889	3,657,254	122,378
Services	2,650,763	3,179,240	106,382
Research materials and molding expenses	1,706,806	1,591,656	53,259
Import, export and freight	1,269,910	598,461	20,025
Repairs, maintenance and sundry purchase	154,835	328,635	10,997
Insurance	206,372	178,424	5,970
Meals and welfare	153,486	156,809	5,247
Donation	437,800	149,164	4,991
Pension cost	110,572	110,304	3,691
Travel	74,784	36,704	1,228
Others	203,333	134,596	4,504
	<u>\$ 46,568,231</u>	<u>\$ 38,353,434</u>	<u>\$ 1,283,367</u>

The employee bonus for six months ended June 30, 2011 and 2012 should be appropriated at 10% and 8.4%, respectively, of net income before deducting employee bonus expenses. Accrued bonus as of June 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Accrued bonus to employees for current year	\$ 3,861,213	\$ 1,219,885	\$ 40,820
Cash bonuses approved by the stockholders for prior years	<u>4,245,853</u>	<u>7,238,637</u>	<u>242,216</u>
	<u>\$ 8,107,066</u>	<u>\$ 8,458,522</u>	<u>\$ 283,036</u>

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. In June 2012, the Company handed over the foregoing donated building to the HTC Cultural and Educational Foundation. The actual construction cost was NT\$218,636 thousand (US\$7,316 thousand). The difference between the estimated construction cost and the actual construction cost was NT\$836 thousand (US\$28 thousand) and was recognized as an adjustment on the donation to the HTC Cultural and Educational Foundation in 2012.

Services fees accrued were mainly marketing activities, research and design and business consulting services provided by related parties. These fees were calculated based on contract duration.

## 18. OTHER CURRENT LIABILITIES

Other current liabilities as of June 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash dividend payable	\$ 29,891,089	\$ 33,249,085	\$ 1,112,568
Warranty provisions	11,712,716	12,312,429	411,993
Provisions for contingent loss on purchase orders	2,202,376	1,526,702	51,086
Deferred credits - gain from intercompany transactions	503,942	1,205,760	40,347
Other payables	491,981	397,702	13,308
Agency receipts	304,825	370,852	12,409
Advance receipts	283,722	91,325	3,056
Others	<u>485,421</u>	<u>774,888</u>	<u>25,929</u>
	<u>\$ 45,876,072</u>	<u>\$ 49,928,743</u>	<u>\$ 1,670,696</u>

In June 2011 and 2012, the stockholders approved the appropriation of cash dividends of NT\$29,891,089 thousand and NT\$33,249,085 thousand (US\$1,112,568 thousand), respectively. The amounts to be distributed were temporarily accounted for as "cash dividend payable" as of June 30, 2011 and 2012.

The Company provides warranty service for one year to two years depending on the contract with customers and recognizes estimable warranty liabilities.

Other payables were payables for patents, miscellaneous expenses on behalf 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 downstream 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.

## **19. PENSION PLAN**

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$153,621 thousand and NT\$210,370 thousand (US\$7,039 thousand) for the six months ended June 30, 2011 and 2012, respectively.

Based on the defined benefit plan under the Labor Standards Law (the "LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name. The Company recognized pension costs of NT\$2,062 thousand and NT\$1,995 thousand (US\$67 thousand) for the six months ended June 30, 2011 and 2012, respectively.

## **20. STOCKHOLDERS' EQUITY**

### **Capital Stock**

The Company's outstanding common stock as of January 1, 2011 amounted 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 and employee bonuses of NT\$40,055 thousand to capital stock. Also, in December 2011, the Company retired 10,000 thousand treasury shares amounting to NT\$100,000 thousand. As a result, the amount of the Company's outstanding common stock as of June 30, 2012 increased to NT\$8,520,521 thousand (US\$285,110 thousand), divided into 852,052 thousand common shares at NT\$10.00 (US\$0.33) par value.

### **Global Depositary Receipts**

In November 2003, the Company issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts (GDRs). For this GDR issuance, the Company's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. 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 June 30, 2012, there were 7,141.5 thousand units of GDRs redeemed, representing 28,566.1 thousand common shares, and the outstanding GDRs represented 7,494.4 thousand common shares or 0.90% of the Company's common shares.

## Capital Surplus

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

### Additional paid-in capital - issuance of shares in excess of par

The additional paid-in capital was NT\$10,777,623 thousand as of January 1, 2011. In June 2011, the bonus to employees of NT\$8,491,704 thousand for 2010 was approved in the stockholders' meeting. Of the approved bonus, NT\$4,245,851 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 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 in additional paid-in capital. As a result, the additional paid-in capital as of June 30, 2012 was NT\$14,809,608 thousand (US\$495,553 thousand).

### 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 was accounted for as capital surplus - treasury stock transactions, and NT\$37,503 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 and NT\$435 thousand, respectively. As a result, capital surplus from treasury stock transactions and expired stock options as of June 30, 2012 were NT\$1,730,458 thousand (US\$57,904 thousand) and NT\$37,068 thousand (US\$1,241 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:

		<b>5<sup>th</sup> Buyback</b>	<b>6<sup>th</sup> Buyback</b>
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

### Long-term equity investments

As of January 1, 2011, 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 each in 2011. As a result, the capital surplus from long-term equity-method investments as of June 30, 2012 was NT\$18,037 thousand (US\$604 thousand).

## Merger

The additional paid-in capital from a merger was NT\$24,710 thousand as of January 1, 2011. In December 2011, the retirement of treasury stock caused a decrease of NT\$287 thousand in additional paid-in capital from a merger. As a result, the additional paid-in capital from a merger as of June 30, 2012 was NT\$24,423 thousand (US\$817 thousand).

## Others

The bonus to employees of NT\$8,491,704 thousand for 2010 were approved in the stockholders' meeting in June 2011. Of the approved amount, NT\$4,245,852 thousand, representing 4,006 thousand common shares which was determined by fair value, would be distributed by common stock (the amount was NT\$4,245,851 thousand after taking into account the effect that the amount less than one share will be distributed in the form of cash). Because the difference between par value and fair value had not been registered with the government as of June 30, 2011, an amount of NT\$4,205,796 thousand was temporarily accounted for under "capital surplus-other." The registration had been completed in July 2011; thus, the foregoing difference was transferred into additional paid-in capital - issuance of shares in excess of par. As a result, the capital surplus - other as of June 30, 2012 was NT\$0 thousand.

## **Appropriation of Retained Earnings and Dividend Policy**

Under the Company's Articles of Incorporation, if the Company has earnings after the annual final accounting, it shall be allocated in the following order:

- a. To pay taxes.
- b. To cover accumulated losses, if any.
- c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital.
- d. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above subparagraphs a. to c.
- e. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above subparagraphs a. to c., or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as 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.
- f. For any remainder, the board of directors shall propose allocation ratios based on the dividend policy set forth in the Company's Article and propose them at the shareholders' meeting.

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.

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.

The appropriations of earnings for 2010 and 2011 had been approved in the shareholders' meetings on June 15, 2011 and June 12, 2012, respectively. The appropriations and dividends per share were as follows:

	For Year 2010		For Year 2011			
	Appropriation of Earnings	Dividends Per Share	Appropriation of Earnings		Dividends Per Share	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Legal reserve	\$ -	\$ -	\$ 6,197,580	\$ 207,381	\$ -	\$ -
Special reserve	580,856	-	(580,856)	(19,436)	-	-
Cash dividends	29,891,089	37.0	33,249,085	1,112,568	40	1.34
Stock dividends	403,934	0.5	-	-	-	-

The bonus to employees for 2010 and 2011 approved in the shareholders' meetings on June 15, 2011 and June 12, 2012, respectively, were as follows:

		Amounts Approved in Shareholders' Meetings	Amounts Recognized in Respective Financial Statements
		NT\$	NT\$
For Year 2010	Cash	\$ 4,245,853	
	Stock	<u>4,245,851</u>	
		<u>\$ 8,491,704</u>	<u>\$ 8,491,704</u>
For Year 2011	Cash	\$ 7,238,637	
	Stock	<u>-</u>	
		<u>\$ 7,238,637</u>	<u>\$ 7,238,637</u>
		Amounts Approved in Shareholders' Meetings	Amounts Recognized in Respective Financial Statements
		US\$ (Note 3)	US\$ (Note 3)
For Year 2011	Cash	\$ 242,216	
	Stock	<u>-</u>	
		<u>\$ 242,216</u>	<u>\$ 242,216</u>

The number of shares of 4,006 thousand for 2010 was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the day immediately preceding the shareholders' meeting. The approved amounts of the bonus to employees were the same as accrual amounts reflected in the financial statements in 2010 and 2011, respectively.

The employee bonus for six months ended June 30, 2011 and 2012 should be appropriated at 10% and 8.4%, 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.

Information about earnings appropriation and the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 21. TREASURY STOCK

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 to NT\$1,100 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 during the repurchase period and retired 10,000 thousand shares in December 2011 and completed capital amendment registration in January 2012.

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\$22) per share. If the Company's share price becomes lower than this price range, the Company planned to continue to buy back its shares. The Company bought back 6,914 thousand shares (bought back 100 thousand shares in 2011 and 6,814 thousand shares in 2012) for NT\$3,750,056 thousand (US\$125,483 thousand) during the repurchase period. Other treasury stock information for the six months ended 30, 2011 and 2012 were as follows:

(In Thousands of Shares)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
<u>Six months ended June 30, 2011</u>				
For transferring shares to the Company's employees	<u>9,786</u>	<u>-</u>	<u>-</u>	<u>9,786</u>
<u>Six months ended June 30, 2012</u>				
For transferring shares to the Company's employees	<u>14,011</u>	<u>6,814</u>	<u>-</u>	<u>20,825</u>

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 should exercise rights to dividends distribution and to vote.



## 22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

For the six months ended June 30, 2011 and 2012, personnel expenses, depreciation and amortization were as follows:

Function Expense Item	2011			2012					
	NT\$			NT\$			US\$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	\$ 2,995,169	\$ 9,019,549	\$12,014,718	\$ 2,683,730	\$ 5,414,923	\$ 8,098,653	\$ 89,802	\$ 181,192	\$ 270,994
Salary	2,531,678	8,613,940	11,145,618	2,120,393	4,890,330	7,010,723	70,952	163,638	234,590
Insurance	161,344	134,874	296,218	222,297	189,524	411,821	7,438	6,342	13,780
Pension cost	69,353	86,330	155,683	90,174	122,191	212,365	3,017	4,089	7,106
Other	232,794	184,405	417,199	250,866	212,878	463,744	8,395	7,123	15,518
Depreciation	235,620	191,721	427,341	312,196	268,754	580,950	10,447	8,993	19,440
Amortization	137,969	2,072	140,041	251,912	12,241	264,153	8,429	410	8,839

## 23. INCOME TAX

Income taxes payable for the six months ended June 30, 2011 and 2012 were computed as follows:

	2011 NT\$	2012 NT\$	US\$ (Note 3)
Income before income tax	\$ 36,434,476	\$ 13,060,733	\$ 437,032
Less: Gains on equity-method investments	(1,625,478)	(588,326)	(19,686)
Realized pension cost	(14,172)	(10,737)	(359)
(Realized) unrealized bad debt expenses	(3,352)	447,373	14,970
Unrealized (realized) loss on decline in value of inventory	786,766	(1,402,735)	(46,938)
Unrealized exchange gain \ realized exchange loss	(1,579,456)	(826,705)	(27,663)
Realized valuation gain on financial instruments	606,156	73,457	2,458
Unrealized (realized) marketing expense	11,789,762	(5,783,291)	(193,518)
Unrealized (realized) warranty expense	2,655,666	(442,834)	(14,818)
Unrealized royalties	6,885,339	2,844,125	95,169
Unrealized profit from intercompany transactions	158,487	54,230	1,815
Unrealized (realized) contingent losses of purchase orders	260,229	(526,179)	(17,607)
Unrealized research materials and molding expenses	262,044	148,723	4,977
Unrealized sales allowance	1,247,950	89,325	2,989
Other	(22,733)	(5,983)	(200)
Total income	57,841,684	7,131,176	238,621
Less: Tax-exempt income	(50,066,660)	(4,695,286)	(157,112)
Taxable income	7,775,024	2,435,890	81,509
Tax rate	x 17%	x 17%	x 17%
Estimated income tax provision	1,321,754	414,101	13,856
Add: Unappropriated earnings (additional 10% income tax)	865,772	1,489,549	49,843
Less: Investment research and development tax credits (Industrial Innovation Act)	(865,772)	(1,489,549)	(49,843)
Income tax payable determined pursuant to the Income Tax Law	\$ 1,321,754	\$ 414,101	\$ 13,856

(Continued)

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Alternative minimum tax	\$ 5,783,971	\$ 712,918	\$ 23,855
Less: Prepaid and withheld income tax	(26,809)	(28,738)	(962)
Add: Prior years' income tax payable	<u>165,065</u>	<u>126,222</u>	<u>4,224</u>
Income tax payable	<u>\$ 5,922,227</u>	<u>\$ 810,402</u>	<u>\$ 27,117</u> (Concluded)

As of June, 2011 and 2012, the amount of regular income tax is less than the amount of basic tax, the income tax payable shall include the difference between the amount of regular income tax and basic tax, in accordance with "Income Basic Tax Act". As a result, the current income tax payable as of June 30, 2011 and 2012 should be NT\$5,783,971 thousand and NT\$712,918 thousand (US\$23,855 thousand), respectively.

Deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of June 30, 2011 and 2012 were as follows:

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Temporary differences			
Provision for loss on decline in value of inventory	\$ 717,989	\$ 548,838	\$ 18,365
Unrealized warranty expenses	1,991,162	2,093,113	70,039
Unrealized royalties	3,930,929	5,301,246	177,388
Unrealized marketing expenses	4,680,545	3,361,523	112,482
Unrealized contingent losses of purchase orders	374,404	259,539	8,685
Unrealized bad-debt expenses	63,783	229,409	7,676
Unrealized valuation loss on financial instruments	26,500	-	-
Unrealized research materials and molding expenses	105,513	163,785	5,481
Unrealized sales allowance	254,031	87,059	2,913
Unrealized exchange loss	-	62,021	2,075
Other	208,808	221,599	7,415
Tax credit carryforwards	<u>3,141,446</u>	<u>2,338,236</u>	<u>78,241</u>
Total deferred tax assets	15,495,110	14,666,368	490,760
Less: Valuation allowance	<u>(10,143,770)</u>	<u>(9,854,291)</u>	<u>(329,740)</u>
Total deferred tax assets, net	5,351,340	4,812,077	161,020
Deferred tax liabilities			
Realized pension cost	(29,430)	(33,076)	(1,107)
Unrealized valuation gain on financial assets	-	(31,180)	(1,043)
Unrealized exchange gain, net	(216,282)	-	-
Other	<u>-</u>	<u>(112,551)</u>	<u>(3,766)</u>
Deferred tax liabilities offset against deferred tax assets, net	5,105,628	4,635,270	155,104
Less: Current portion	<u>(1,518,307)</u>	<u>(1,341,853)</u>	<u>(44,901)</u>
Deferred tax assets - noncurrent	<u>\$ 3,587,321</u>	<u>\$ 3,293,417</u>	<u>\$ 110,203</u>

The income tax expenses for the six months ended June 30, 2011 and 2012 were as follows:

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Current income tax	\$ 5,783,971	\$ 712,918	\$ 23,855
(Less) add: (Increase) decrease in deferred income tax assets	(1,760,618)	478,552	16,013
Add: Underestimation of prior years' income tax	<u>54,158</u>	<u>-</u>	<u>-</u>
Income tax	<u>\$ 4,077,511</u>	<u>\$ 1,191,470</u>	<u>\$ 39,868</u>

Under the Statute for Upgrading Industries, the Company was granted exemption from corporate income tax for a five-year period:

<b>The Year of Occurrence</b>	<b>Item Exempt from Corporate Income Tax</b>	<b>Exemption Period</b>
2006	Sales of wireless or smartphone which has 3G or GPS function	2006.12.20-2011.12.19
2007	Sales of wireless or smartphone which has 3G or GPS function	2007.12.20-2012.12.19
2008	Sales of wireless or smartphone which has 3.5G function	2010.01.01-2014.12.31
2009	Sales of wireless or smartphone which has 3.5G function (application for exemption under review by the Ministry of Finance as of June 30, 2012)	2012.01.01-2016.12.31

As of June 30, 2012, detail of the tax credit carryforwards was as follows:

<b>Laws and Statutes</b>	<b>Tax Credit Source</b>	<b>Total Creditable Amount</b>		<b>Remaining Creditable Amount</b>		<b>Expiry Year</b>
		<b>NT\$</b>	<b>US\$ (Note 3)</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,145,639	\$ 38,335	\$ 28,261	\$ 946	2012
	Research and development expenditures	2,505,402	83,835	2,309,975	77,295	2013
		<u>\$ 3,651,041</u>	<u>\$ 122,170</u>	<u>\$ 2,338,236</u>	<u>\$ 78,241</u>	

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

The imputation credit account (ICA) information for the six months ended June 30, 2011 and 2012 were as follows:

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Balance of ICA	\$ 3,925,884	\$ 5,940,508	\$ 198,779
Unappropriated earnings from 1998	54,357,978	48,765,769	1,631,780
Estimated creditable ratio (including income tax payable)	17.81%	13.58%	13.58%

When calculating the expected creditable ratio for the six months ended June 30, 2011 and 2012, the income tax payable as of June 30, 2011 and 2012 were included.

The Company's income tax returns through 2008 had been examined by the tax authorities.

## 24. EARNINGS PER SHARE

Earnings per share (EPS) before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. EPS for the six months ended June 30, 2011 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2012.

The Accounting Research and Development Foundation issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effects of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year. The related EPS information for the six months ended June 30, 2011 and 2012 was as follows:

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	\$ 36,434,476	\$ 32,356,965	848,615	<u>\$ 42.93</u>	<u>\$ 38.13</u>
Bonus to employees	-	-	4,363		
Diluted EPS	<u>\$ 36,434,476</u>	<u>\$ 32,356,965</u>	<u>852,978</u>	<u>\$ 42.71</u>	<u>\$ 37.93</u>
2012					
	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	\$ 13,060,733	\$ 11,869,263	832,742	<u>\$ 15.68</u>	<u>\$ 14.25</u>
Bonus to employees	-	-	3,490		
Diluted EPS	<u>\$ 13,060,733</u>	<u>\$ 11,869,263</u>	<u>836,232</u>	<u>\$ 15.62</u>	<u>\$ 14.19</u>
2012					
	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	\$ 437,032	\$ 397,164	832,742	<u>\$ 0.52</u>	<u>\$ 0.48</u>
Bonus to employees	-	-	3,490		
Diluted EPS	<u>\$ 437,032</u>	<u>\$ 397,164</u>	<u>836,232</u>	<u>\$ 0.52</u>	<u>\$ 0.47</u>

## 25. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

#### a. Non-derivative financial instruments

	June 30					
	2011		2012			
	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	\$ 733,446	\$ 733,446	\$ 738,745	\$ 24,720	\$ 738,745	\$ 24,720
Available-for-sale financial assets - noncurrent	591	591	189	6	189	6
Held-to-maturity financial assets - noncurrent	206,285	205,457	202,922	6,790	202,404	6,773
Financial assets carried at cost - noncurrent	515,861	515,861	515,861	17,262	515,861	17,262

#### b. Derivative financial instruments

	June 30					
	2011		2012			
	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	\$ -	\$ -	\$ 181,288	\$ 6,066	\$ 181,288	\$ 6,066
Liabilities						
Financial liabilities at fair value through profit or loss - current	155,880	155,880	-	-	-	-
Hedging derivative liabilities - current	-	-	15,871	531	15,871	531

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

Not subject to SFAS No. 34 - "Financial Instruments: Recognition and Measurement" are cash and cash equivalent, receivables, other current financial assets, payables, accrued expenses and other current financial liabilities, which have carrying amounts that approximate their fair values due to their short maturities.

The financial instruments neither include other noncurrent financial assets nor liabilities. The fair values of aforementioned financial instruments were based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

The fair values of financial instruments at fair value through profit or loss, available-for-sale, hedging derivative financial instruments 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.

Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active

market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

### Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	June 30			June 30		
	2011	2012		2011	2012	
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
<b>Assets</b>						
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ -	\$ -	\$ 181,288	\$ 6,066
Available-for-sale financial assets - current	733,446	738,745	24,720	-	-	-
Available-for-sale financial assets - noncurrent	591	189	6	-	-	-
Held-to-maturity financial assets - noncurrent	205,457	202,404	6,773	-	-	-
Financial assets carried at cost - noncurrent	-	-	-	515,861	515,861	17,262
<b>Liabilities</b>						
Financial liabilities at fair value through profit or loss - current	-	-	-	155,880	-	-
Hedging derivative liabilities - current	-	-	-	-	15,871	531

The Company recognized unrealized gains of NT\$1,551 thousand and NT\$2,624 thousand (US\$88 thousand) for the six months ended June 30, 2011 and 2012, respectively, under stockholders' equity for the changes in fair value of available-for-sale financial assets.

As of June 30, 2011 and 2012, financial assets exposed to fair value interest rate risk amounted to NT\$206,285 thousand and NT\$202,922 thousand (US\$6,790 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$102,158,785 thousand and NT\$42,553,613 thousand (US\$1,423,912 thousand), respectively.

### Financial Risks

#### a. Market risk

The Company uses forward exchange contracts for hedging purposes, i.e., to reduce any adverse effect of exchange rate fluctuations of accounts receivable/payable. The gains or losses on these contracts almost offset the gains or losses on the hedged items. Thus, market risk is not material.

#### b. Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties breach contracts. In the event of counter-parties failing to perform their obligations under financial assets, it will affect the extent of credit risk concentration, components of financial assets and the amount of contracts. The counter-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Company's exposure to default by those parties to be material.

#### c. Liquidity risk

The Company's operating funds are deemed sufficient to meet the cash flow demand, therefore, liquidity risk is not considered to be significant.

Under the regulations of the Securities and Futures Bureau, an entity shall disclose derivative financial instrument transactions the investee company entered into. The objective of our investee company for the derivative contracts is to hedge the foreign currency exchange rate fluctuation risks. However, our investee company's derivative contracts did not meet the criteria for hedge accounting and thus were 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 derivative contracts that subsidiaries entered into are briefly disclosed as follows:

Saffron Digital Ltd.

The Company acquired Saffron in January 2011. Saffron had settled the forward exchange contracts as of June 30, 2011, and the realized settlement loss on these contracts was NT\$1,074 thousand.

## 26. RELATED-PARTY TRANSACTIONS

The related parties were 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
Faith Hope & Love Limited	Its significant stockholder in substance is the Company's chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC Investment Corporation	Subsidiary
HTC I Investment 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.

(Continued)

<b>Related Party</b>	<b>Relationship with the Company</b>
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.
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.
FunStream Corporation	Subsidiary
Employees' Welfare Committee	Employees' Welfare Committee of the Company
HTC Cultural and Educational Foundation	A nonprofit organization with over one third of its total funds donated by the Company

(Concluded)

Major transactions with related parties are summarized below:

#### **Purchases of Inventories and Services**

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount	% to Total Net Purchases	Amount		% to Total Net Purchases
NT\$		NT\$	US\$ (Note 3)		
HTC Electronics (Shanghai) Co., Ltd.	\$ 185,933	-	\$ 1,267,781	\$ 42,422	2
Chander Electronics Corp.	<u>172,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 358,493</u>	<u>-</u>	<u>\$ 1,267,781</u>	<u>\$ 42,422</u>	<u>2</u>

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



## Sales and Services Provided

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount NT\$	% to Total Revenues	Amount		% to Total Revenues
			NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 107,981,092	48	\$ 25,772,472	\$ 862,389	17
HTC Communication Co., Ltd.	5,988,333	3	16,138,138	540,008	11
Faith Hope & Love Limited	-	-	2,235,584	74,806	1
Others	<u>50,488</u>	<u>-</u>	<u>295,808</u>	<u>9,898</u>	<u>-</u>
	<u>\$ 114,019,913</u>	<u>51</u>	<u>\$ 44,442,002</u>	<u>\$ 1,487,101</u>	<u>29</u>

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., Employees' Welfare Committee and Faith Hope & Love Limited. The collection terms for products sold to related parties were similar to those for sales to third parties, except HTC America Inc.

## Accounts Receivable

Related Party	June 30				
	2011		2012		
	Amount NT\$	% to Total Accounts Receivable	Amount		% to Total Accounts Receivable
			NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 32,021,146	45	\$ 26,849,803	\$ 898,438	37
HTC Communication Co., Ltd.	2,247,238	3	6,236,617	208,687	9
Faith Hope & Love Limited	-	-	224,138	7,500	-
Others	<u>35,188</u>	<u>-</u>	<u>88,725</u>	<u>2,969</u>	<u>-</u>
	<u>\$ 34,303,572</u>	<u>48</u>	<u>\$ 33,399,283</u>	<u>\$ 1,117,594</u>	<u>46</u>

## Accounts Payable

Related Party	June 30				
	2011		2012		
	Amount NT\$	% to Total Accounts Payable	Amount		% to Total Accounts Payable
			NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 2,980,760	4	\$ 1,857,270	\$ 62,147	2
Chander Electronics Corp.	<u>108,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,089,137</u>	<u>4</u>	<u>\$ 1,857,270</u>	<u>\$ 62,147</u>	<u>2</u>

## Other Receivable

Related Party	June 30				
	2011		2012		
	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
			NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 13,356	1	\$ 6,405	\$ 214	1
Others	<u>2,657</u>	<u>-</u>	<u>2,113</u>	<u>71</u>	<u>-</u>
	<u>\$ 16,013</u>	<u>1</u>	<u>\$ 8,518</u>	<u>\$ 285</u>	<u>1</u>

## Prepaid Expenses

Related Party	June 30				
	2011		2012		
	Amount	% to Total Prepayment	Amount		% to Total Prepayment
			NT\$	US\$ (Note 3)	
HTC Communication Technologies (SH)	\$ -	-	\$ 54,233	\$ 1,815	1
HTC America Innovation Inc.	167,031	4	34,152	1,143	-
Others	<u>39,039</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 206,070</u>	<u>5</u>	<u>\$ 88,385</u>	<u>\$ 2,958</u>	<u>1</u>

## Accrued Expenses

Related Party	June 30				
	2011		2012		
	Amount	% to Total Accrued Expenses	Amount		% to Total Accrued Expenses
			NT\$	US\$ (Note 3)	
HTC EUROPE CO., LTD.	\$ 675,275	2	\$ 525,918	\$ 17,598	2
High Tech Computer Asia Pacific Pte. Ltd.	333,201	1	230,307	7,707	1
HTC India Private Limited	172,837	-	190,139	6,362	1
HTC HK, Limited	284,418	1	179,728	6,014	1
HTC Belgium BVBA/SPRL	90,720	-	127,962	4,282	-
HTC (Australia and New Zealand) PTY. Ltd.	200,560	-	85,234	2,852	-
PT. High Tech Computer Indonesia	-	-	65,960	2,207	-

(Continued)

Related Party	June 30				
	2011		2012		
	Amount	% to Total Accrued Expenses	Amount		% to Total Accrued Expenses
			NT\$	US\$ (Note 3)	
HTC (Thailand) Limited	\$ 67,298	-	\$ 64,115	\$ 2,146	-
Communication Global					
Certification Inc.	38,669	-	61,333	2,052	-
Saffron Digital Limited	35,403	-	54,855	1,836	-
HTC NIPPON Corporation	2,682	-	40,859	1,367	-
HTC Communication Canada,					
Ltd.	8	-	40,762	1,364	-
HTC BRASIL	-	-	30,103	1,007	-
HTC Malaysia Sdn. Bhd.	16,175	-	24,352	815	-
ABAXIA SAS	33,215	-	23,977	802	-
HTC Innovation Limited	51,273	-	4,298	144	-
HTC Cultural and Educational					
Foundation	217,800	1	-	-	-
HTC America Innovation Inc.	148,172	-	-	-	-
Others	76,820	-	87,127	2,915	-
	<u>\$ 2,444,526</u>	<u>5</u>	<u>\$ 1,837,029</u>	<u>\$ 61,470</u>	<u>5</u>
					(Concluded)

#### Other Payables to Related Parties

Related Party	June 30				
	2011		2012		
	Amount	% to Total Other Payables	Amount		% to Total Other Payables
			NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 34,794	7	\$ 72,524	\$ 2,427	18
High Tech Computer Asia					
Pacific Pte. Ltd.	49,298	10	43,405	1,452	11
High Tech Computer Corp.					
(WGQ)	28,208	6	29,145	975	7
HTC Malaysia Sdn. Bhd.	-	-	15,374	515	4
HTC EUROPE CO., LTD.	96,872	20	12,993	435	3
HTC America Innovation Inc.	28,613	6	-	-	-
ABAXIA SAS	25,548	5	-	-	-
Others	12,659	2	6,822	228	2
	<u>\$ 275,992</u>	<u>56</u>	<u>\$ 180,263</u>	<u>\$ 6,032</u>	<u>45</u>

## Outsourcing Expenses

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount	% to Total Outsourcing Expenses	Amount		% to Total Outsourcing Expenses
			NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 11,041,770	99	\$ 7,280,933	\$ 243,632	99

Outsourcing expenses was calculated based on processing rate and the payment terms were similar to those paid to third parties.

## Warranty Expenses

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount	% to Warranty Expenses	Amount		% to Warranty Expenses
			NT\$	US\$ (Note 3)	
High Tech Computer Corp. (WGQ)	\$ 84,664	1	\$ 133,425	\$ 4,465	2
High Tech Computer Asia Pacific Pte. Ltd.	32,792	-	48,456	1,621	1
HTC EUROPE CO., LTD.	219,828	4	34,202	1,144	1
HTC HK, Limited	-	-	13,278	444	-
HTC BRASIL	9,753	-	13,108	439	-
High Tech Computer (H.K.) Limited	10,210	-	-	-	-
Others	12,550	-	18,903	633	-
	\$ 369,797	5	\$ 261,372	\$ 8,746	4

Warranty expense resulted from authorizing the above related parties to provide after-sales service and the amount was calculated based on the actual repair quantities during warranty period.

## Commission Expenses

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount	% to Total Commission Expenses	Amount		% to Total Commission Expenses
			NT\$	US\$ (Note 3)	
HTC EUROPE CO., LTD.	\$ 2,953,665	84	\$ 2,290,070	\$ 76,629	76
HTC Belgium					
BVBA/SPRL	222,703	6	266,456	8,916	9
HTC Germany GmbH.	88,232	2	99,680	3,336	3
HTC Nordic ApS.	92,894	3	94,949	3,177	3
HTC FRANCE					
CORPORATION	72,383	2	93,872	3,141	3
HTC Iberia S.L.	43,811	1	42,185	1,412	2
Others	<u>69,173</u>	<u>2</u>	<u>126,021</u>	<u>4,217</u>	<u>4</u>
	<u>\$ 3,542,861</u>	<u>100</u>	<u>\$ 3,013,233</u>	<u>\$100,828</u>	<u>100</u>

Commission expenses resulted from authorizing the related parties to expand business overseas and accounted as commission expense based on their nature.

## Service and Marketing Fees

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount	% to Total Service and Marketing Fees	Amount		% to Total Service and Marketing Fees
			NT\$	US\$ (Note 3)	
HTC America Innovation Inc.	\$ 538,558	5	\$ 838,988	\$ 28,074	7
High Tech Computer Asia					
Pacific Pte. Ltd.	437,622	4	540,153	18,074	5
HTC (Australia and New					
Zealand) Pty. Ltd.	306,147	3	360,730	12,071	3
HTC Communication					
Technologies (SH)	-	-	307,335	10,284	3
HTC India Private Limited	203,346	2	265,234	8,875	2
Saffron Digital Limited	78,960	1	195,453	6,540	2
HTC HK, Limited	359	-	189,346	6,336	2
HTC Nippon Corporation	59,281	-	168,177	5,627	1
HTC Communication Canada,					
Ltd.	8	-	145,172	4,858	1
ABAXIA SAS	112,078	1	134,099	4,487	1
PT. High Tech Computer					
Indonesia	-	-	131,857	4,412	1

(Continued)

Six Months Ended June 30					
Related Party	2011		2012		
	Amount	% to Total Service and Marketing Fees			% to Total Service and Marketing Fees
			Amount		
			NT\$	US\$ (Note 3)	
Communication Global Certification Inc.	\$ 107,123	1	\$ 123,771	\$ 4,141	1
HTC Malaysia Sdn. Bhd.	96,816	1	91,479	3,061	1
One& Company Design Inc.	73,855	-	82,838	2,772	1
HTC BRASIL	82,520	1	80,370	2,689	1
HTC (Thailand) Limited	82,369	1	77,338	2,588	1
HTC Innovation Limited	196,132	2	53,992	1,807	-
High Tech Computer (H.K.) Limited	320,445	3	-	-	-
Others	<u>12,495</u>	<u>-</u>	<u>1,844</u>	<u>62</u>	<u>-</u>
	<u>\$ 2,708,114</u>	<u>25</u>	<u>\$ 3,788,176</u>	<u>\$126,758</u>	<u>33</u>
					(Concluded)

Service and market fees resulted from authorizing the related parties to expand business overseas, design, research and development support and consulting services. These fees were calculated based on contract duration.

#### Leasing - Lessee

##### Operating expenses - rental expenses

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount	% to Total Rental Expenses	Amount	US\$ (Note 3)	% to Total Rental Expenses
NT\$		NT\$			
VIA Technologies Inc.	\$ 2,604	3	\$ 2,604	\$ 87	4

The Company leased staff dormitory owned by VIA Technologies, Inc. at operating lease agreements. The term of the lease agreement is from April 2012 to March 2015 and the rental payment was determined at the prevailing rates in the surrounding area.

## Donation

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount	% to Total Donation	Amount		% to Total Donation
	NT\$		NT\$	US\$ (Note 3)	
HTC Cultural and Educational Foundation	\$ -	-	\$ 836	\$ 28	1

Note 17 has more information about HTC Cultural and Educational Foundation.

## Trademark and Technology License Agreement

### Beats Electronics, 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 six months ended June 30, 2012 was NT\$124,459 thousand (US\$4,165 thousand), and the prepayment for royalty was NT\$29,463 thousand (US\$986 thousand) as of June 30, 2012.

### Dashwire, Inc.

In order to enhance the product diversity, the Company entered into a technology license agreement with Dashwire, Inc. The agreement took effect in January 2012 and will end in December 2012. The royalty prepayment for six months ended June 30, 2012 was NT\$29,918 thousand (US\$1,001 thousand).

## Property Transaction

In 2012, the Company bought the auxiliary facilities of buildings from Chander Electronics Corp. for NT\$48,803 thousand (US\$1,633 thousand). As of June 30, 2012, there was NT\$17,719 thousand (US\$593 thousand) unpaid and was accounted for under “payable for purchase of equipment.”

## Patent Litigation

Note 31 has more information.

## 27. PLEDGED ASSETS

As of June 30, 2011 and 2012, the Company had provided time deposits of NT\$63,900 thousand and NT\$34,100 thousand (US\$1,141 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.

## 28. COMMITMENTS AND CONTINGENCIES

As of June 30, 2012, unused letters of credit amounted to EUR95 thousand, US\$1,452 thousand and JPY22,288 thousand.

Under the unit purchase agreement between the Company and Beats Electronics, LLC (“Beats”), the founding members of Beats have a put right to sell the Company all of the interests through five years.

In addition, the Company 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.

## 29. SUBSEQUENT EVENTS

On July 19, 2012, the Company's board of directors passed a resolution to offer US\$225,000 thousand short-term loan to its subsidiary - Beats to fulfill Beats' working capital requirement in response to its operating model transformation. This loan was secured by all the assets of Beats. As of July 31, 2012, the date of the accompanying independent auditors' report, the Company had loaned US\$225,000 thousand to Beats.

On July 19, 2012, the Company's board of directors passed a resolution to sell back 25% of the shareholdings in Beats held by HTC America Holding, Inc. to the founding members of Beats for US\$150,000 thousand. After the sale, the Company will indirectly own 25.14% interests in Beats. This sale will terminate the agreement in Note 28 section 2, namely the put right and call right between the Company and the founding members of Beats will no longer be in effect.

## 30. SIGNIFICANT CONTRACTS

### Patent Agreements

The Company specializes in research, design, manufacture and sales of smart handheld devices. 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	<p>December 20, 2000 to the following dates:</p> <p>a. If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents.</p> <p>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.</p>	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.

(Continued)



<b>Contractor</b>	<b>Contract Term</b>	<b>Description</b>
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.

(Concluded)

### 31. OTHER EVENTS

#### Lawsuit

- a. In April 2008, ICom GMBH & CO., KG (“ICom”) filed a multi-claim lawsuit against the Company with the District Court of Mannheim, Germany, alleging that the Company infringed ICom’s patents. In November 2008, the Company filed declaratory judgment action for non-infringement and invalidity against three of ICom’s patents with the Washington Court, District of Columbia.

In October 2010, ICom filed a new complaint against the Company alleging patent infringement of patent owned by ICom in District Court of Dusseldorf, Germany.

In June 2011, ICom filed a new complaint against the Company alleging patent infringement of patent owned by ICom with the High Court in London, the United Kingdom. In September 2011, the Company 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. The Company evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against the Company are very unlikely.

In March 2012, Washington Court granted on the Company’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 July 31, 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.

- b. In March 2010, Apple Inc. (“Apple”) filed a lawsuit against the Company, H.T.C. (B.V.I.) Corp., HTC America Inc. and Exedea Inc. (“the Company”) concurrently with the U.S. International Trade Commission (“ITC”) and U.S. District Court in Delaware (“Delaware court”), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing 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 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.

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. Regarding the patents asserted in ITC No. 337-TA-808, Apple filed an antitrust lawsuit in the United States District Court for the Eastern District of Virginia in June 2012.

As of July 31, 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.

- c. In January 2012, Eastman Kodak (“Kodak”) filed a lawsuit against the Company, HTC America Inc. and Exedea Inc. (“the Company”) concurrently with the ITC and U.S. District Court of Western District of New York (“New York court”), alleging that the Company infringed its patents. Kodak requested ITC and New York court to prevent the Company from exporting to and selling in United States devices made using Kodak’s patents and damage compensation, respectively. The Company evaluated that there was indirect association between the patents used by the Company’s devices and those claimed by Kodak. The Company believes the lawsuits have limited impact on its financial results or sales activities.

As of July 31, 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.

- d. In May 2012, Nokia Corporation (“Nokia”) filed a lawsuit against the Company, HTC America, Inc. and Exedea, Inc. (“the Company”) concurrently with the ITC, Delaware court and the District Courts of Mannheim, Munich and Dusseldorf in Germany (“German courts”), alleging that these companies infringed its patents. Nokia requested ITC to prevent the Company from exporting to and selling in United States devices made using Nokia’s patents and requested Delaware court and German courts to grant damage compensation upon Nokia. The Company subsequently filed revocation actions against Nokia’s asserted patents in London High Court. The Company evaluated that there was indirect association between the patents used by the Company’s devices and those claimed by Nokia. The Company believes the lawsuits have limited impact on its financial results or sales activities.

As of July 31, 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.

- e. The Company had shared lawsuit-related costs on the basis of common benefits and agreements between its vendors and customers. For the six months ended June 30, 2012, companies that the Company shared lawsuit-related costs with included VIA Technologies Inc. and its subsidiaries.
- f. 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, and recognized its estimable cost.

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	June 30			
	2011		2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 2,450,154	28.80	\$ 3,149,361	29.89
EUR	593,538	41.73	504,662	37.56
GBP	65,605	46.29	24,749	46.71
JPY	120,556	0.3582	8,688,519	0.3754
RMB	-	-	1,601,639	4.6941
Investments accounted for by the equity method				
USD	89,250	28.80	406,767	29.89
SGD	468,481	23.44	1,159,179	23.52

(Continued)

	June 30			
	2011		2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial liabilities</u>				
Monetary items				
USD	\$ 3,285,616	28.80	\$ 3,298,375	29.89
EUR	593,065	41.73	549,773	37.56
GBP	92,406	46.29	41,256	46.71
JPY	478,737	0.3582	18,097,515	0.3754
RMB	-	-	1,913,042	4.6941
				(Concluded)

## 32. SEGMENT DISCLOSURES

The Company has provided the operating segments disclosure in the consolidated financial statements.