

## **HTC Corporation**

**Financial Statements for the  
Years Ended December 31, 2010 and 2011 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
HTC Corporation

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

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

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

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

Our audits also comprehended the translation of the 2011 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

February 14, 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 DECEMBER 31, 2010 AND 2011 (In Thousands, Except Par Value)

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

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

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

# HTC CORPORATION

## STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2011 (In Thousands, Except Earnings Per Share)

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

(Continued)

# HTC CORPORATION

## STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2011 (In Thousands, Except Earnings Per Share)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
INCOME BEFORE INCOME TAX	\$ 44,491,309	\$ 69,849,671	\$ 2,306,868
INCOME TAX (Notes 2 and 22)	<u>(4,957,709)</u>	<u>(7,873,875)</u>	<u>(260,044)</u>
NET INCOME	<u>\$ 39,533,600</u>	<u>\$ 61,975,796</u>	<u>\$ 2,046,824</u>

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

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

(Concluded)

# HTC CORPORATION

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2010 AND 2011 (In Thousands of New Taiwan Dollars)

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

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

# HTC CORPORATION

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2010 AND 2011 (In Thousands of U.S. Dollars)

	Capital Stock	Other Equity												
	Issued and Outstanding Common Stock	Capital Surplus					Retained Earnings			Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Gain (Loss) on Financial Instruments	Treasury Stock	Total
	Issuance of Shares in Excess of Par	Treasury Stock Transactions	Long-term Equity Investments	Merger	Expired Stock Options	Legal Reserve	Special Reserve	Accumulated Earnings						
BALANCE, JANUARY 1, 2011	\$ 270,040	\$ 355,944	\$ -	\$ 608	\$ 816	\$ -	\$ 339,300	\$ -	\$ 1,746,323	\$ (19,150)	\$ (4)	\$ (29)	\$ (226,312)	\$ 2,467,536
Appropriation of the 2010 net earnings														
Special reserve	-	-	-	-	-	-	-	19,184	(19,184)	-	-	-	-	-
Stock dividends	13,340	-	-	-	-	-	-	-	(13,340)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(987,189)	-	-	-	-	(987,189)
Transfer of employee bonuses to common stock	1,323	138,901	-	-	-	-	-	-	-	-	-	-	-	140,224
Net income in 2011	-	-	-	-	-	-	-	-	2,046,824	-	-	-	-	2,046,824
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	126	-	126
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	20,211	-	-	-	20,211
Adjustment due to the movement of investees' other equity under the equity method	-	-	-	-	-	-	-	-	-	-	(6)	-	-	(6)
Adjustment due to changes in ownership percentage of investees' other equity under the equity method	-	-	-	(12)	-	-	-	-	-	-	-	-	-	(12)
Transfer of treasury stock to employees	-	-	57,821	-	-	1,239	-	-	-	-	-	-	135,864	194,924
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(532,904)	(532,904)
Retirement of treasury stock	(3,303)	(5,740)	(671)	-	(9)	(15)	-	-	(271,293)	-	-	-	281,031	-
BALANCE, DECEMBER 31, 2011	\$ 281,400	\$ 489,105	\$ 57,150	\$ 596	\$ 807	\$ 1,224	\$ 339,300	\$ 19,184	\$ 2,502,141	\$ 1,061	\$ (10)	\$ 97	\$ (342,321)	\$ 3,349,734

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



# HTC CORPORATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2011 (In Thousands)

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

# HTC CORPORATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2011 (In Thousands)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of available-for-sale financial assets	\$ (3,551,180)	\$ (490,000)	\$ (16,183)
Proceeds of the sale of available-for-sale financial assets	5,610,175	200,029	6,606
Purchase of held-to-maturity financial assets	(208,331)	-	-
Increase in investments accounted for by the equity method	(3,031,907)	(23,186,330)	(765,756)
Purchase of properties and assets leased to others	(3,004,250)	(5,328,935)	(175,994)
(Increase) decrease in refundable deposits	(10,031)	303	10
Increase in deferred charges	(4,144)	(122,413)	(4,043)
Increase in intangible assets	(220,943)	(2,279,911)	(75,297)
Net cash used in investing activities	(4,420,611)	(31,207,257)	(1,030,657)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in guarantee deposits received	(582)	-	-
Cash dividends	(20,122,332)	(29,891,089)	(987,189)
Purchase of treasury stock	(11,686,667)	(16,135,808)	(532,904)
Transfer treasury stock to employees	-	4,113,821	135,864
Net cash used in financing activities	(31,809,581)	(41,913,076)	(1,384,229)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,605,612	12,590,244	415,808
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	61,676,464	66,282,076	2,189,044
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 66,282,076	\$ 78,872,320	\$ 2,604,852
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid during the year			
Interest (net of amounts capitalized)	\$ 46	\$ 10,265	\$ 339
Income tax	\$ 4,161,335	\$ 6,406,264	\$ 211,574
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Transfer of retained earnings to common stock	\$ 386,968	\$ 403,934	\$ 13,340
Transfer of assets leased to others to properties	\$ 47,813	\$ 50,828	\$ 1,679
Retirement of treasury stock	\$ 4,834,174	\$ 8,509,336	\$ 281,031
Transfer of stock bonuses to employees to common stock and additional paid-in capital	\$ 1,943,694	\$ 4,245,851	\$ 140,224

(Continued)

# HTC CORPORATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2011 (In Thousands)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
INCREASE IN LONG-TERM INVESTMENTS - EQUITY METHOD			
Increase in investments accounted for by the equity method	\$ 2,976,349	\$ 23,145,450	\$ 764,406
Decrease in payable for purchase of investments	<u>55,558</u>	<u>40,880</u>	<u>1,350</u>
Cash paid for increase in long-term investments	<u>\$ 3,031,907</u>	<u>\$ 23,186,330</u>	<u>\$ 765,756</u>
PURCHASE OF PROPERTIES AND ASSETS LEASED TO OTHERS			
Purchase cost of properties and assets leased to others	\$ 3,252,855	\$ 5,359,120	\$ 176,991
Increase in payable for purchase of equipment	(249,681)	(30,185)	(997)
Decrease in lease payable	<u>1,076</u>	<u>-</u>	<u>-</u>
Cash paid for the purchase of properties and assets leased to others	<u>\$ 3,004,250</u>	<u>\$ 5,328,935</u>	<u>\$ 175,994</u>

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

(Concluded)

# HTC CORPORATION

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2011 (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 and sell smart handheld devices. In 1998, the Company had an initial public offering and, in March 2002, the Company’s stock was listed on the Taiwan Stock Exchange. On November 19, 2003, the Company started trading Global Depositary Receipts on the Luxembourg Stock Exchange.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### Foreign Currencies

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

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

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

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

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

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

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

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

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

### **Accounting Estimates**

Under the above guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of properties, income tax, royalty, pension cost, loss on pending litigations, product warranties, bonuses to employees, etc. Actual results may differ from these estimates.

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

### **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 as those for financial assets at FVTPL.

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

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

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

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by making an aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

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

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

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

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

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

### **Inventories**

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Cost is determined using the moving-average method.

### **Held-to-maturity Financial Assets**

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

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

### **Financial Assets Carried at Cost**

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the emerging stock market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

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

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

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

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

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

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

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

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

### **Intangible Assets**

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



## **Deferred Charges**

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

## **Asset Impairment**

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

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

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

## **Marketing Expenses**

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

## **Warranty Provisions**

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

## **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, warranty expenses, contingent loss on purchase orders, and inventory write-downs and reversal of these write-downs.

## **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 stockholders' equity; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred income tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

If the Company can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred income tax liability or asset is not recognized.

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

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

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

## **Stock-based Compensation**

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

## **Treasury Stock**

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

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

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

## Reclassifications

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

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

The financial statements are stated in New Taiwan dollars. The translation of the 2011 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$30.279 to US\$1.00 quoted by Reuters on December 31, 2011. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

### 4. ACCOUNTING CHANGES

#### Financial Instruments

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

#### Operating Segments

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

### 5. CASH AND CASH EQUIVALENTS

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

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

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

## 6. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value through profit or loss as of December 31, 2010 and 2011 were as follows:

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

The Company had derivative transactions in 2010 and 2011 to manage exposures related to exchange rate fluctuations. However, these transactions did not meet the criteria for hedge accounting under Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement." Thus, the Company had no hedge accounting in 2010 and 2011. Outstanding forward exchange contracts as of December 31, 2010 and 2011 were as follows:

### Forward Exchange Contracts

	<u>2010</u>			
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Buy	USD/CAD	2011.01.26	USD 250
Forward exchange contracts	Buy	USD/JPY	2011.01.12-2011.02.23	USD 18,187
Forward exchange contracts	Sell	EUR/USD	2011.01.05-2011.03.18	EUR 531,000
Forward exchange contracts	Sell	GBP/USD	2011.01.12-2011.03.25	GBP 57,400
Forward exchange contracts	Sell	USD/NTD	2011.01.03-2011.01.31	USD 447,000
	<u>2011</u>			
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Buy	USD/CAD	2012.01.11-2012.02.22	USD 28,010
Forward exchange contracts	Buy	USD/RMB	2012.01.04-2012.01.31	USD 105,000
Forward exchange contracts	Sell	EUR/USD	2012.01.04-2012.03.30	EUR 339,000
Forward exchange contracts	Sell	GBP/USD	2012.01.11-2012.02.22	GBP 17,100

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

Net gain on derivative financial instruments in 2011 was NT\$173,575 thousand (US\$5,733 thousand), including a realized settlement loss of NT\$83,293 thousand (US\$2,750 thousand) and a valuation gain of NT\$256,868 thousand (US\$8,483 thousand). Note 24 has more information.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

## 8. NOTES AND ACCOUNTS RECEIVABLE

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

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

## 9. OTHER CURRENT FINANCIAL ASSETS

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

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

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

## 10. INVENTORIES

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

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

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

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

## 11. PREPAYMENTS

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

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

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

Prepayments to suppliers were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of December 31, 2011, noncurrent prepayments of NT\$2,007,160 thousand (US\$66,289 thousand) had been classified as other assets.

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

## 12. HELD-TO-MATURITY FINANCIAL ASSETS

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

	<b>2010</b>	<b>2011</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$</b>
			<b>(Note 3)</b>
Corporate bonds	<u>\$ 207,946</u>	<u>\$ 204,597</u>	<u>\$ 6,757</u>

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

## 13. FINANCIAL ASSETS CARRIED AT COST

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

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

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

In March 2004, the Company merged with IA Style, Inc. and acquired 1.82% equity interest in Answer Online, Inc. as a result of the merger. In 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. When the Company's ownership percentage changed 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.

#### 14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

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

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. and accounted for this investment by the equity method. The Company made a new investment of NT\$570,991 thousand and reorganized its overseas subsidiaries' investment structure in 2010. Then, H.T.C. (B.V.I.) Corp. transferred some of its subsidiaries to High Tech Computer Asia Pacific Pte. Ltd. and reduced its capital by NT\$893,506 thousand. In 2011, the Company made a new investment of NT\$1,696,821 thousand (US\$56,040 thousand) in H.T.C. (B.V.I.) Corp. As of December 31, 2011, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to NT\$2,552,638 thousand (US\$84,304 thousand). Because the registration of this investment had not been completed as of December 31, 2011, an amount of NT\$157,146 thousand (US\$5,190 thousand) was temporarily accounted for under "prepayments for long-term investments."

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT\$135,000 thousand and accounted for this investment by the equity method. In July 2010 the Company lost its significant influence on this investee and has since accounted for this investment by the cost method (Note 13 has more information).

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc. for NT\$280,000 thousand and accounted for this investment by the equity method. The Company increased this investment by NT\$100,000 thousand in 2010. As of December 31, 2011, the Company's investment in Communication Global Certification Inc. had amounted to NT\$380,000 thousand (US\$12,550 thousand).

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. ("High Tech Asia") and accounted for this investment by the equity method. In 2010, High Tech Asia increased its capital by NT\$3,198,864 thousand because of the Company's new cash investment and a transfer-in due to the reorganization of the Company's overseas subsidiaries' investment structure. In 2011, the Company increased this investment by NT\$11,817,735 thousand (US\$390,295 thousand). As of December 31, 2011, the Company's investment in High Tech Asia had amounted to NT\$18,379,684 thousand (US\$607,011 thousand). Because the registration of this investment had not been completed as of December 31, 2011, an amount of NT\$105,557 thousand (US\$3,486 thousand) was temporarily accounted for under "prepayments for long-term investments."



In April 2008, the Company made a bond investment of US\$350 thousand and transferred its bond investment of US\$1,000 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27.27% equity interest in Vitamin D Inc. for NT\$40,986 thousand, enabling the Company to exercise significant influence over this investee. Thus, the Company accounted for this investment by the equity method. After that, the Company's ownership percentage declined from 27.27% to 25.59%, and there was a capital surplus - long-term equity investments of NT\$1,689 thousand in 2008 and NT\$671 thousand in 2009. In addition, the Company determined that the recoverable amount of this investment in 2009 was less than its carrying amount and thus recognized an impairment loss of NT\$30,944 thousand. Vitamin D was dissolved in August 2010.

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

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

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

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

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

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

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

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

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

## 15. PROPERTIES

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

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

In December 2008, the Company bought land - about 8.3 thousand square meters - from Yulon Motors Ltd. for NT\$3,335,000 thousand to build the Taipei R&D headquarters in Xindian City. The Company had paid 80% and 20% of the purchase price and completed the transfer registration of the corresponding portions of the land in December 2008 and January 2010, respectively.

In November 2010, the Company bought land and building for NT\$404,000 thousand from a related party, VIA Technologies, Inc. to have more office space in Xindian.

In April 2011, the Company bought land adjacent to its Taoyuan plant for NT\$1,770,000 thousand (US\$58,456 thousand) from an unrelated party to build a complete HTC technology park and meet future capacity expansion requirements.

Prepayments for construction-in-progress and equipment-in-transit were for the construction of the Taipei R&D headquarters and Taoyuan plant as well as miscellaneous equipment.

There were no interests capitalized for 2010 and 2011.

## 16. ACCRUED EXPENSES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 15,742,853	\$ 25,556,956	\$ 844,049
Bonus to employees	8,491,704	7,238,637	239,065
Services	2,770,306	2,760,164	91,158
Salaries and bonuses	2,089,517	2,500,248	82,574
Research materials	726,105	1,848,332	61,043
Import, export and freight	1,060,399	1,197,075	39,535
Repairs and maintenance	138,747	264,044	8,720
			(Continued)

	<b>2010</b>	<b>2011</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Donation	\$ 217,800	\$ 235,800	\$ 7,788
Insurance	122,947	188,970	6,241
Meals and welfare	162,337	153,108	5,056
Pension cost	69,296	110,560	3,651
Travel	43,396	49,571	1,637
Others	<u>28,222</u>	<u>260,766</u>	<u>8,612</u>
	<u>\$ 31,663,629</u>	<u>\$ 42,364,231</u>	<u>\$ 1,399,129</u> (Concluded)

Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2010 and 2011 should be appropriated at 18% and 10%, respectively, of net income before deducting employee bonus expenses.

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

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

Service fees accrued referred mainly to marketing activities, research and design, and business consulting services provided by related parties.

## 17. OTHER CURRENT LIABILITIES

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

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

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

Other payables were payables for patents, treasury stock, miscellaneous expenses of overseas sales offices and repair materials.

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

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

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

## 18. PENSION PLAN

The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions based on the Act were NT\$219,565 thousand in 2010 and NT\$350,450 thousand (US\$11,574 thousand) in 2011.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund was 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee's name. The pension fund balances were NT\$447,728 thousand and NT\$481,685 thousand (US\$15,908 thousand) as of December 31, 2010 and 2011, respectively.

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

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

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

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

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

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

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

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

## 19. STOCKHOLDERS' EQUITY

### Capital Stock

The Company's outstanding common stock as of January 1, 2010 amounted to NT\$7,889,358 thousand, divided into 788,936 thousand common shares at NT\$10.00 par value. In April 2010, the Company retired 15,000 thousand treasury shares amounting to NT\$150,000 thousand. In June 2010, the stockholders approved the transfer of retained earnings of NT\$386,968 thousand and employee bonuses of NT\$50,206 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2010 increased to NT\$8,176,532 thousand, divided into 817,653 thousand common shares at NT\$10.00 par value.

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

## **Global Depositary Receipts**

The Company issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts (GDRs). For this GDR issuance, the Company's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Each GDR represents four common shares, and was issued, at a premium, at NT\$131.1. For this common share issuance, net of related expenses, NT\$1,696,855 thousand was accounted for as capital surplus. This share issuance for cash was completed and registered on November 19, 2003.

The holders of these GDRs have the same rights and obligations as the stockholders of the Company. However, the distribution of the offering and sales of GDRs and the shares represented thereby in certain jurisdictions may be restricted by law. In addition, the GDRs offered and the shares represented are not transferable, except in accordance with the restrictions described in the GDR offering circular and related laws applied in Taiwan. Through the depositary custodian in Taiwan, GDR holders are entitled to exercise these rights:

- a. To vote; and
- b. To receive dividends and participate in new share issuance for cash subscription.

Taking into account the effect of stock dividends, the GDRs increased to 9,015.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of December 31, 2011, there were 6,404.4 thousand units of GDRs redeemed, representing 25,617.5 thousand common shares, and the outstanding GDRs represented 10,443 thousand common shares or 1.25% of the Company's common shares.

## **Capital Surplus**

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

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

The additional paid-in capital was NT\$9,056,323 thousand as of January 1, 2010. In April 2010, the retirement of treasury stock caused a decrease of NT\$172,188 thousand in additional paid-in capital. The bonus to employees of NT\$4,859,236 thousand for 2009 was approved in the stockholders' meeting in June 2010. Of the approved bonus, NT\$1,943,694 thousand was in the form of common stock, consisting of 5,021 thousand common shares at their fair value, which were distributed in 2010. The difference between par value and fair value of NT\$1,893,488 thousand was accounted for as additional paid-in capital in 2010. As a result, the additional paid-in capital as of December 31, 2010 was NT\$10,777,623 thousand.

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

### Treasury stock transactions and expired stock options

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

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

		<u>5<sup>th</sup> Buyback</u>	<u>6<sup>th</sup> Buyback</u>
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, 2010, the capital surplus from long-term equity-method investments was NT\$18,411 thousand. When the Company did not subscribe for the new shares issued by an equity-method investee, Huada Digital Corporation, in September 2011, the Company's total investment carrying value and capital surplus decreased by NT\$374 thousand (US\$12 thousand) each in 2011. As a result, the capital surplus from long-term equity-method investments as of December 31, 2011 was NT\$18,037 thousand (US\$596 thousand).

### Merger

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

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

Based on the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual net income less any deficit should first be appropriated as legal reserve. From the remainder, there should be appropriations of not more than 3% as remuneration to directors and supervisors and at least 5% as bonuses to employees.

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 bonus to employees of NT\$4,859,236 thousand for 2009 was approved in the stockholders' meeting in June 2010. The bonus to employees consisted of a cash bonus of NT\$2,915,542 thousand and a share bonus of NT\$1,943,694 thousand. The share number of 5,021 thousand was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting. The approved amounts of the bonus to employees were the same as the accrued amounts.

The bonus to employees of NT\$8,491,704 thousand for 2010 was approved in the stockholders' meeting in June 2011. The bonus to employees consisted of a cash bonus of NT\$4,245,852 thousand and a share bonus of NT\$4,245,852 thousand (the amounts were NT\$4,245,853 thousand and NT\$4,245,851 thousand, respectively, after taking into account the effect that the amount less than one share will be distributed in the form of cash). The share number of 4,006 thousand was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting. The approved amounts of the bonus to employees were the same as the accrued amounts.

Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2010 and 2011 should be appropriated at 18% and 10%, respectively, of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

As of February 14, 2012, the date of the accompanying independent auditors' report, the appropriation of the 2011 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed on the Market Observation Post System website.

## **20. TREASURY STOCK**

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

On July 11, 2010, the Company's board of directors passed a resolution to buy back 10,000 thousand of its shares from the open market. The repurchase period was between July 13, 2010 and September 12, 2010, and the repurchase price ranged from NT\$526 to NT\$631 per share. If the Company's share price was lower than this price range, the Company planned to continue to buy back its shares. The Company bought back 4,786 thousand shares for NT\$2,865,990 thousand during the repurchase period.

On October 29, 2010, the Company's board of directors passed a resolution to buy back 5,000 thousand and 5,000 thousand of its shares from the open market between November 1, 2010 and November 30, 2010, and between December 1, 2010 and December 31, 2010, respectively, with the repurchase price ranging from NT\$565 to NT\$850 per share. If the Company's share price was lower than this price range, the Company planned to continue to buy back its shares. The Company bought back 5,000 thousand shares for NT\$3,986,503 thousand during these repurchase periods.



In June 2011, the Company resolved to transfer 6,000 thousand treasury shares to employees; the number of shares actually transferred was 5,875 thousand.

The Company resolved to transfer 6,000 thousand treasury stocks to employees in June 2011, and the number of shares actually transferred was 5,875 thousand.

On July 16, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand and 10,000 thousand of its shares from the open market between July 18, 2011 and August 17, 2011, and between August 18, 2011 and September 17, 2011, respectively, with the repurchase price ranging from NT\$900 (US\$30) to NT\$1,100 (US\$36) per share. If the Company's share price was lower than this price range, the Company planned to continue to buy back its shares. The Company bought back 20,000 thousand shares for NT\$16,086,098 thousand (US\$531,262 thousand) during the repurchase period and retired 10,000 thousand shares in December 2011.

On December 20, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand of its shares from the open market between December 20, 2011 and February 19, 2012, with the repurchase price ranged from NT\$445 (US\$15) to NT\$650 (US\$21) per share. If the Company's share price becomes lower than this price range, the Company planned to continue to buy back its shares. As of December 31, 2011, the Company had bought back 100 thousand shares for NT\$49,710 thousand (US\$1,642 thousand). Other treasury stock information for 2010 and 2011 were as follows:

(In Thousands of Shares)				
Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
<u>Year ended December 31, 2010</u>				
To maintain the Company's credibility and stockholders' interest	-	15,000	15,000	-
For transferring shares to the Company's employees	<u>-</u>	<u>9,786</u>	<u>-</u>	<u>9,786</u>
	<u>-</u>	<u>24,786</u>	<u>15,000</u>	<u>9,786</u>
<u>Year ended December 31, 2011</u>				
To maintain the Company's credibility and stockholders' interest	-	10,000	10,000	-
For transferring shares to the Company's employees	<u>9,786</u>	<u>10,100</u>	<u>5,875</u>	<u>14,011</u>
	<u>9,786</u>	<u>20,100</u>	<u>15,875</u>	<u>14,011</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 exercise voting rights.

## 21. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

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

## 22. INCOME TAX

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

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

Item Exempt from Corporate Income Tax	Exemption Period
Sales of pocket PCs (wireless) and smartphones	2005.12.20-2010.12.19
Sales of wireless or smartphone which has 3G or GPS function	2006.12.20-2011.12.19
Sales of wireless or smartphone which has 3G or GPS function	2007.12.20-2012.12.19
Sales of wireless or smartphone which has 3.5G function	2010.01.01-2014.12.31
Sales of wireless or smartphone which has 3.5G function (application for exemption under review by the Ministry of Finance as of December 31, 2011)	2012.01.01-2016.12.31

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

	2010 NT\$	2011 NT\$	US\$ (Note 3)
Income before income tax	\$ 44,491,309	\$ 69,849,671	\$ 2,306,868
Gains on equity-method investments	(1,457,395)	(2,718,362)	(89,777)
Impairment loss on financial assets carried at cost	1,192	-	-
Realized investment loss	(101,268)	(40,986)	(1,354)
Realized pension cost	(21,293)	(24,882)	(822)
Unrealized losses on decline in value of inventory	789,930	1,194,497	39,450
Unrealized royalties	7,782,060	13,500,587	445,873
Realized exchange losses, net	(156,772)	(893,584)	(29,512)
(Realized) unrealized bad-debt expenses	(357,947)	523,546	17,291
Capitalized expense	(49,924)	21,421	707
Unrealized warranty expense	3,769,488	3,698,214	122,138
Unrealized marketing expenses	7,169,890	9,824,170	324,455

(Continued)

	<b>2010</b>	<b>2011</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
(Unrealized) realized valuation gains on financial instruments	\$ (432,144)	\$ 193,408	\$ 6,388
Unrealized contingent losses on purchase orders	1,216,443	110,734	3,657
Unrealized gains on intercompany transactions	237,305	806,075	26,622
Unrealized research materials expenses	-	456,098	15,063
Unrealized sales allowance	-	176,442	5,827
Unrealized (realized) salary expense	700,000	(700,000)	(23,118)
Other	<u>(281,695)</u>	<u>(89,782)</u>	<u>(2,965)</u>
Total income	63,299,179	95,887,267	3,166,791
Less: Tax-exempt income	<u>(56,137,044)</u>	<u>(77,353,700)</u>	<u>(2,554,698)</u>
Taxable income	7,162,135	18,533,567	612,093
Tax rate	<u>17%</u>	<u>17%</u>	<u>17%</u>
Estimated income tax provision	1,217,563	3,150,706	104,056
Unappropriated earnings (additional 10% income tax)	-	865,772	28,593
Less: Investment research and development tax credits (industrial Innovation Act)	<u>-</u>	<u>(865,772)</u>	<u>(28,593)</u>
Income tax payable determined pursuant to the Income Tax Law	<u>\$ 1,217,563</u>	<u>\$ 3,150,706</u>	<u>\$ 104,056</u>
Alternative minimum tax	\$ 6,330,018	\$ 9,588,529	\$ 316,672
Less: Prepaid and withheld income tax	(28,685)	(61,661)	(2,036)
Prior years' income tax payable	<u>115,334</u>	<u>126,222</u>	<u>4,169</u>
Income tax payable	<u>\$ 6,416,667</u>	<u>\$ 9,653,090</u>	<u>\$ 318,805</u> (Concluded)

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

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

	<b>2010</b>	<b>2011</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Temporary differences			
Allowance for loss on decline in value of inventory	\$ 584,238	\$ 787,303	\$ 26,002
Unrealized marketing expenses	2,676,285	4,344,683	143,488
Unrealized warranty expense	1,539,698	2,168,395	71,614
Capitalized expense	74,045	69,244	2,287
Unrealized royalties	2,522,645	4,817,745	159,112
			(Continued)

	<b>2010</b>	<b>2011</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Unrealized contingent losses on purchase orders	\$ 206,795	\$ 348,990	\$ 11,526
Unrealized bad-debt expenses	64,353	153,355	5,065
Unrealized exchange losses, net	268,248	138,092	4,560
Unrealized research materials	-	138,502	4,574
Unrealized sales allowance	-	71,874	2,374
Other	131,570	102,064	3,371
Tax credit carryforwards	<u>3,141,129</u>	<u>3,123,594</u>	<u>103,160</u>
Total deferred tax assets	11,209,006	16,263,841	537,133
Less: Valuation allowance	<u>(7,760,428)</u>	<u>(10,962,549)</u>	<u>(362,052)</u>
Total deferred tax assets, net	3,448,578	5,301,292	175,081
Deferred tax liabilities			
Unrealized pension cost	(27,021)	(31,251)	(1,032)
Unrealized valuation gains on financial instruments	(76,547)	(43,668)	(1,442)
Other	<u>-</u>	<u>(112,551)</u>	<u>(3,717)</u>
	3,345,010	5,113,822	168,890
Less: Current portion	<u>(925,579)</u>	<u>(1,517,302)</u>	<u>(50,111)</u>
Deferred tax assets - noncurrent	<u>\$ 2,419,431</u>	<u>\$ 3,596,520</u>	<u>\$ 118,779</u> (Concluded)

Details of the tax credit carryforwards were as follows:

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

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

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

The income taxes in 2010 and 2011 were as follows:

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

The integrated income tax information is as follows:

	<b>2010</b>	<b>2011</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Balance of imputation credit account (ICA)	\$ 3,098,652	\$ 2,523,575	\$ 83,344
Unappropriated earnings generated from 1998	52,876,892	75,762,315	2,502,141
Actual/estimated creditable ratio (including income tax payable)	17.73% (Actual ratio)	15.91% (Estimated ratio)	15.91% (Estimated ratio)

For distribution of earnings generated on or after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2011 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

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

## 23. EARNINGS PER SHARE

Earnings per share (EPS) before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding, which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 856,001 thousand shares for 2010 and 845,319 thousand shares for 2011. EPS for 2010 was calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2011.

The Accounting Research and Development Foundation issued Interpretation 2007-052, which requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effects of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year. The related EPS information for 2010 and 2011 is as follows:

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

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

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

## 24. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

#### a. Nonderivative financial instruments

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

#### b. Derivative financial instruments

	December 31					
	2010		2011			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$ 450,276	\$ 450,276	\$ 256,868	\$ 8,483	\$ 256,868	\$ 8,483

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

Not subject to Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement" are cash, receivables, other current financial assets, payables, accrued expenses and other current financial liabilities, which have carrying amounts that approximate their fair values.

The financial instruments exclude refundable deposits and guarantee deposits. The fair values of refundable deposits and guarantee deposits received are based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

The fair values of financial instruments at fair value through profit or loss, available-for-sale and held-to-maturity financial assets are based on quoted market prices in an active market, and their fair values can be reliably measured. If the securities do not have market prices, fair value is measured on the basis of financial or other information. The Company uses estimates and assumptions that are consistent with information that market participants would use in setting a price for these securities with no quoted market prices.

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.

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

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

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

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

## Financial Risks

### a. Market risk

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

b. Credit risk

The Company deals only with banks with good credit standing based on the banks' reputation and takes into account past experience with them. Moreover, the Company has a series of control procedures for derivative transactions. Management believes its exposure to counter-parties' default on contracts is low.

c. Cash flow risk

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

Under the regulations of the Securities and Futures Bureau, the derivative contracts that subsidiaries entered into are briefly disclosed as follows:

Saffron Digital Ltd.

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

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

## 25. RELATED-PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Way-Lien Technology Co., Ltd	Significant stockholder of the Company
WTI Investment International, Ltd.	Its significant stockholder in substance is the Company's chairperson
VIABASE CO., LTD.	Chairperson of its parent company is the same as that of the Company
S3 Graphics Co., Ltd.	A wholly owned subsidiary of VIABASE CO., LTD. and WTI Investment International, Ltd.
H.T.C. (B.V.I.) Corp.	Subsidiary
BandRich Inc.	Originally a subsidiary of the Company until July 2010 because of losing significant influence
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC Investment Corporation	Subsidiary
HTC I Investment Corporation	Subsidiary
Huada Digital Corporation	Subsidiary
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.

(Continued)



Related Party	Relationship with the Company
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 High Tech Computer Asia Pacific Pte. Ltd.
HTC Electronics (Shanghai) Co., Ltd.	Subsidiary of HTC HK, Limited.
HTC Netherlands B.V.	Subsidiary of HTC HK, Limited.
HTC EUROPE CO., LTD.	Subsidiary of HTC Holding Cooperatief U.A.
HTC BRASIL	Subsidiary of HTC. Netherlands B.V.
HTC Belgium BVBA/SPRL	Subsidiary of HTC. Netherlands B.V.
HTC NIPPON Corporation	Subsidiary of HTC. Netherlands B.V.
HTC FRANCE CORPORATION	Subsidiary of HTC. Netherlands B.V.
HTC South Eastern Europe Limited Liability Company	Subsidiary of HTC. Netherlands B.V.
HTC Nordic ApS	Subsidiary of HTC. Netherlands B.V.
HTC Italia SRL	Subsidiary of HTC. Netherlands B.V.
HTC Germany GmbH.	Subsidiary of HTC. Netherlands B.V.
HTC Iberia S.L.	Subsidiary of HTC. Netherlands B.V.
HTC Poland sp. z o.o.	Subsidiary of HTC. Netherlands B.V.
Saffron Media Group Ltd.	Subsidiary of HTC. Netherlands B.V.
HTC America Holding Inc.	Subsidiary of HTC. Netherlands B.V.
ABAXIA SAS	Subsidiary of HTC EUROPE CO., LTD.
HTC America Inc.	Subsidiary of HTC France Corporation
One & Company Design Inc.	Subsidiary of HTC America Holding Inc.
HTC America Innovation Inc.	Subsidiary of HTC America Holding Inc.
HTC BLR	Subsidiary of HTC America Holding, Inc.
Saffron Digital Ltd.	Subsidiary of ABAXIA SAS
Saffron Digital Inc.	Subsidiary of Saffron Media Group Ltd.
HTC Communication Canada, Ltd.	Subsidiary of Saffron Media Group Ltd.
HTC Luxembourg S.a.r.l.	Subsidiary of HTC. Netherlands B.V.
HTC America Content Services, Inc.	Subsidiary of HTC. Netherlands B.V.
HTC Norway AS	Subsidiary of HTC. Netherlands B.V.
HTC RUS LLC	Subsidiary of HTC America Holding Inc.
HTC Communication Sweden AB	Subsidiary of HTC. Netherlands B.V.
Dashwire, Inc.	Subsidiary of HTC. Netherlands B.V.
HTC Investment One (BVI) Corp.	Subsidiary of HTC. Netherlands B.V.
Inquisitive Minds, Inc.	Subsidiary of HTC America Holding Inc.
Beats Electronics, LLC	Subsidiary of HTC America Holding Inc.
HTC Communication Technologies (SH)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
Employees' Welfare Committee	Employees' Welfare Committee of HTC Corporation
HTC Cultural and Educational Foundation	A nonprofit organization with over one third of its total funds donated by the Company
HTC Social Welfare and Charity Foundation	A nonprofit organization with over one third of its total funds donated by the Company

(Concluded)

Major transactions with related parties are summarized below:

#### Purchases of Inventories and Services

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

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

#### Sales and Services Provided

Related Party	2010		2011		% to Total Revenues
	Amount	% to Total Revenues	Amount		
	NT\$		NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 86,510,154	32	\$ 201,020,041	\$ 6,638,926	44
HTC Communication Co., Ltd.	2,565,782	1	20,728,859	684,595	5
Employees' Welfare Committee	34,138	-	52,540	1,735	-
Exedea Inc.	1,126,078	-	-	-	-
Others	<u>232,547</u>	<u>-</u>	<u>44,309</u>	<u>1,464</u>	<u>-</u>
	<u>\$ 90,468,699</u>	<u>33</u>	<u>\$ 221,845,749</u>	<u>\$ 7,326,720</u>	<u>49</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. and Employees' Welfare Committee. The collection terms for products sold to related parties were similar to those for sales to third parties.

## Accounts Receivable

Related Party	December 31				
	2010		2011		
	Amount	% to Total Accounts Receivable	Amount		% to Total Accounts Receivable
			NT\$	US\$ (Note 3)	
Accounts receivable					
HTC America Inc.	\$ 26,738,921	42	\$ 29,333,501	\$ 968,774	44
HTC Communication Co., Ltd.	1,388,612	2	3,600,517	118,911	6
Others	<u>58,858</u>	<u>-</u>	<u>43,251</u>	<u>1,429</u>	<u>-</u>
	<u>\$ 28,186,391</u>	<u>44</u>	<u>\$ 32,977,269</u>	<u>\$ 1,089,114</u>	<u>50</u>

## Accounts Payable

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

## Other Receivables

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

## Prepaid Expenses

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

## Accrued Expenses

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

## Other Payables to Related Parties

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

## Outsourcing Expenses

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

## Warranty Expenses

Related Party	2010		2011		
	Amount	% to Total Warranty Expenses	Amount		% to Total Warranty Expenses
			NT\$	US\$ (Note 3)	
	NT\$				
HTC EUROPE CO., LTD.	\$ 275,025	3	\$ 270,479	\$ 8,933	2
HTC Corporation (Shanghai WGQ)	104,176	1	222,830	7,359	2
High Tech Computer Asia Pacific Pte. Ltd.	62,068	1	71,402	2,358	-
HTC BRASIL	13,048	-	31,791	1,050	-
HTC HK, Limited	-	-	13,097	433	-
High Tech Computer (H.K.) Limited	40,707	-	10,210	337	-

(Continued)

Related Party	2010		2011		
	Amount	% to Total Warranty Expenses	Amount		% to Total Warranty Expenses
			NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 793,998	8	\$ -	\$ -	-
Others	<u>24,650</u>	<u>-</u>	<u>23,931</u>	<u>790</u>	<u>-</u>
	<u>\$ 1,313,672</u>	<u>13</u>	<u>\$ 643,740</u>	<u>\$ 21,260</u>	<u>4</u>
					(Concluded)

#### Commission Expenses

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

#### Service and Marketing Fees

Related Party	2010		2011		
	Amount	% to Total Service Expenses	Amount		% to Total Service Expenses
			NT\$	US\$ (Note 3)	
HTC America Innovation Inc.	\$ 278,890	2	\$ 1,845,128	\$ 60,938	7
High Tech Computer Asia Pacific Pte. Ltd.	312,685	2	1,042,726	34,437	4
HTC (Australia and New Zealand) Pty. Ltd.	332,085	2	711,604	23,501	3
HTC HK, Limited	881	-	691,116	22,825	3
HTC India Private Limited	149,498	1	450,601	14,882	2
HTC Innovation Limited	188,065	1	343,031	11,329	2
					(Continued)

Related Party	2010		2011		% to Total Service Expenses
	Amount	% to Total Service Expenses	Amount		
			NT\$	US\$ (Note 3)	
ABAXIA SAS	\$ 56,751	-	\$ 281,221	\$ 9,288	1
One & Company Design, Inc.	160,473	1	269,350	8,896	1
Saffron Digital Ltd.	-	-	251,774	8,315	1
HTC (Thailand) Ltd.	70,248	1	239,050	7,895	1
Communication Global Certification Inc.	163,565	1	237,324	7,838	1
HTC Malaysia Sdn. Bhd.	76,639	-	232,818	7,689	1
HTC BRASIL	175,816	1	169,549	5,599	-
HTC NIPPON Corporation	106,811	1	156,130	5,156	-
High Tech Computer (H.K.) Limited	192,255	2	70,068	2,314	-
HTC America Inc.	2,276,534	16	-	-	-
Others	<u>16,080</u>	<u>-</u>	<u>96,637</u>	<u>3,192</u>	<u>-</u>
	<u>\$ 4,557,276</u>	<u>31</u>	<u>\$ 7,088,127</u>	<u>\$ 234,094</u>	<u>27</u>
					(Concluded)

#### Rental Revenues

Related Party	2010		2011		
	Amount	% to Total Other Revenues	Amount		% to Total Other Revenues
			NT\$	US\$ (Note 3)	
Chander Electronics Corp.	\$ -	-	\$ 920	\$ 30	100

#### Other Revenues

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

## Leasing - Lessee

### Operating expenses - rental expenses

Related Party	2010		2011		% to Total Rental Expenses
	Amount	% to Total Rental Expenses	Amount		
			NT\$	US\$ (Note 3)	
VIA Technologies Inc.	\$ 12,212	16	\$ 5,209	\$ 172	2

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

## Trademark and Technology License Agreement

### Beats Electronice, LLC

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

## Donation

Related Party	2010		2011		
	Amount	% to Total Donation Expenses	Amount		% to Total Donation Expenses
			NT\$	US\$ (Note 3)	
HTC Cultural and Educational Foundation	\$ 150,000	49	\$ 150,000	\$ 4,954	39
HTC Social Welfare and Charity Foundation	<u>150,000</u>	<u>49</u>	<u>150,000</u>	<u>4,954</u>	<u>39</u>
	\$ 300,000	98	\$ 300,000	\$ 9,908	78

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

## Property Transactions

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



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

In November 2010, the Company bought land and building for NT\$404,000 thousand from a related party, VIA Technologies, Inc. to have more office space in Xindian.

### **Endorsement/Guarantee Provided**

Note 27 has more information.

### **Patent Litigation**

Note 29 has more information.

### **Compensation of Directors, Supervisors and Management Personnel**

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Salaries	\$ 85,045	\$ 106,673	\$ 3,523
Incentives	216,618	67,282	2,222
Special compensation	3	-	-
Bonus	<u>1,386,441</u>	<u>(Note)</u>	<u>(Note)</u>
	<u>\$ 1,688,107</u>	<u>\$ 173,955</u>	<u>\$ 5,745</u>

Note: The appropriation of the 2011 earnings is not shown because the Board of Directors had not yet made the related proposal.

The Company's disclosure of the compensation of directors, supervisors and management personnel for 2010 and 2011 was in compliance with Order VI-0970053275 issued by the Financial Supervisory Commission under the Executive Yuan.

The compensation of directors, supervisors and management personnel for the year ended December 31, 2010 included bonuses appropriated from the earnings of 2010, which were approved by the stockholders in their annual meeting in 2011.

## **26. PLEDGED ASSETS**

As of December 31, 2010 and 2011, the Company had provided time deposits of NT\$63,900 thousand (US\$2,110 thousand) to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

## **27. COMMITMENTS AND CONTINGENCIES**

As of December 31, 2011, unused letters of credit amounted to US\$1,951 thousand.

The Company provided a US\$15,000 thousand guarantee for HTC Electronics (Shanghai) Co., Ltd.'s bank loans. The Company terminated the guarantee in April 2011.

Under the unit purchase agreement between the Company and Beats Electronics, LLC, the founding members of Beats Electronics, LLC shall have a put right to sell the Company all of the interests by years. In addition, the Company shall have a call right to make a purchase of all the founding members' interests. The put right and call right are terminated automatically upon the consummation of a qualified IPO.

## 28. SIGNIFICANT CONTRACTS

### Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates:  a. If the Company materially breaches any agreement term and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents.  b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents in the agreement.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents in the agreement.	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.

(Continued)

Contractor	Contract Term	Description
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)

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

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

In October 2010, ICom filed a new complaint against the Company alleging patent infringement of patent #114 (EP 1226692B1) in District Court of Dusseldorf. The Company has previously filed patent invalidity action against patent #114 (EP 1226692B1) in EPO and patent #114 (EP 1226692B1) has already been revoked by EPO and ICom is appealing EPO's decision. In December 2010, the #100 (EP 186189B1) was upheld in the Federal Patents Court; however, the chances of ICom proving infringement are very low because of the revised very restricted claim. The risk of this newly asserted patent is very low.

In June 2011, ICom filed a new complaint against the Company alleging patent infringement of patent #100a (EP 1841268B1) with the High Court in London. Preliminary injunction and summary judgment against the Company are very unlikely.

In December 2011, the Company withdrew its appeal with the court of Appeal in Karlsruhe, Germany, in order to avoid possible finding of infringement on #100a (EP 1841268B1). ICom has started enforcement proceedings of original #100 injunction. The Company has now fully implemented workaround in place, so business is not affected in Germany.

Also, ICom filed a multi-claim lawsuit against the Company in multiple jurisdictions, including USA, UK and Italy. After that, the Company filed patent non-infringement and patent invalidity in those jurisdictions. As of February 14, 2012, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

- b. In March 2010, Apple Inc. ("Apple") filed a lawsuit against the Company, H.T.C. (B.V.I.) Corp., HTC America, Inc. and Exedea, Inc. ("the Company") concurrently with the U.S. International Trade Commission ("ITC") and U.S. District Court in Delaware ("Delaware court"), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing to and selling devices in the United States and damage compensation, respectively. The Company, subsequently filed ITC investigation and filed counterclaim with Delaware court against Apple for patent infringements. The Company requested ITC and Delaware court to prevent Apple from importing and selling devices in the United States and damage compensation, respectively.

In November, 2011, the Company acquired the business operation and ownership of patent portfolio of S3 Graphics Co., Ltd. ("S3 Graphics"). In July, 2011, Apple filed another ITC investigation and a companion district court case in Delaware against the Company alleging patent infringement (ITC No. 337-TA-797). In August 2011, the Company filed another ITC investigation and a companion district court case in Delaware against Apple alleging patent infringement (ITC No. 337-TA-808) against Apple. On September 22, 2011, S3 Graphics filed another ITC investigation (ITC No. 337-TA-813) and a companion district court case in Delaware against Apple alleging infringement of its patents.

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

As of February 14, 2012, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

- c. In March 2008, Flashpoint Technology, Inc., a U.S. entity, sued the Company and HTC America ("the Company") with 10 patents in the District Court of Delaware alleging the Company infringed its patents and seeking damage compensation. The Company filed re-exams and the district court case was stayed pending the result of the re-examination from U.S. Patent and Trademark Office on November 2009, and is still stayed.

In May 2010, Flashpoint filed an ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. In November 2011, the ITC Committee issued its Final Determination and ruled that the Company does not infringe patents owned by Flashpoint.

- d. The Company had shared lawsuit-related costs on the basis of common benefits and agreements between its vendors and customers. For 2011, companies that the Company shared lawsuit-related costs with included VIA Technologies Inc. and its subsidiaries.
- e. 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.

### **Construction of the Taipei R&D Headquarters**

In September 2009, the Company's board of directors resolved to build the Taipei R&D headquarters in Xindian City and the land was bought from Yulon Motors Ltd. The estimated budget for the construction is NT\$3,380,000 thousand for a total floor space of 92 thousand square meters. Construction is scheduled to be completed by February 2012 (Note 15 has more information).

### **Other**

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

	December 31			
	2010		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 2,561,948	29.13	\$ 3,018,210	30.28
EUR	733,365	38.92	485,148	39.19
GBP	91,604	45.19	44,226	46.73
Investments accounted for by the equity method				
USD	36,284	29.13	412,799	30.28
SGD	338,120	22.73	996,626	23.32
<u>Financial liabilities</u>				
Monetary items				
USD	2,845,961	29.13	3,266,412	30.28
EUR	762,692	38.92	590,266	39.19
GBP	94,537	45.19	56,572	46.73

## **30. SEGMENT DISCLOSURES**

The Company is organized and managed as a single reportable business segment. The Company's operations are mainly related to the research, design, manufacture and sales of smart handheld devices.

Selected financial information is as follows:

### Geographical Areas

The Company's noncurrent assets located in an individual foreign country were immaterial. Revenues from domestic and overseas customers for 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Taiwan	\$ 7,559,367	\$ 20,138,095	\$ 665,085
Country W	134,222,005	206,306,376	6,813,514
Country X	23,499,741	30,778,220	1,016,487
Country Y	5,404,707	20,871,641	689,311
Country Z	18,451,758	20,495,340	676,883
Others	<u>85,909,376</u>	<u>156,489,514</u>	<u>5,168,252</u>
	<u>\$ 275,046,954</u>	<u>\$ 455,079,186</u>	<u>\$ 15,029,532</u>

### Major Customers

Revenues in 2010 and 2011 that were 10 percent or more from transactions with a single external customer were as follows:

	<u>2010</u>	<u>2011</u>	
Customer	NT\$	NT\$	US\$ (Note 3)
A	<u>\$ 86,510,154</u>	<u>\$ 201,020,041</u>	<u>\$ 6,638,926</u>