

HTC Corporation and Subsidiaries

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

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

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

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

February 14, 2012

Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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)	\$ 74,462,861	\$ 87,501,508	\$ 2,889,841
Financial assets at fair value through profit or loss (Notes 2, 6 and 26)	450,276	256,868	8,483
Available-for-sale financial assets - current (Notes 2 and 7)	441,948	736,031	24,308
Notes receivable , net (Notes 2 and 8)	-	755,450	24,950
Accounts receivable, net (Notes 2, 8 and 27)	61,614,355	63,964,341	2,112,499
Other current financial assets (Notes 9 and 27)	783,540	1,405,911	46,432
Inventories (Notes 2 and 10)	26,413,747	28,430,590	938,954
Prepayments (Note 11)	2,620,738	7,075,231	233,668
Deferred income tax assets (Notes 2 and 24)	1,051,196	2,246,196	74,183
Other current assets	<u>767,825</u>	<u>1,055,480</u>	<u>34,859</u>
Total current assets	<u>168,606,486</u>	<u>193,427,606</u>	<u>6,388,177</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 (Notes 2 and 13)	1,023,661	3,408,654	112,575
Investments accounted for by the equity method (Notes 2 and 14)	<u>-</u>	<u>71,732</u>	<u>2,369</u>
Total long-term investments	<u>1,232,145</u>	<u>3,685,262</u>	<u>121,710</u>
PROPERTIES (Notes 2, 15 and 27)			
Cost			
Land	5,862,076	7,614,167	251,467
Buildings and structures	5,005,642	5,999,807	198,151
Machinery and equipment	7,236,349	11,298,070	373,132
Molding equipment	172,632	172,632	5,701
Computer equipment	474,299	765,177	25,271
Transportation equipment	7,378	7,710	255
Furniture and fixtures	245,041	368,025	12,154
Leased assets	5,934	6,730	222
Leasehold improvements	<u>305,073</u>	<u>463,581</u>	<u>15,310</u>
Total cost	19,314,424	26,695,899	881,663
Less: Accumulated depreciation	(5,801,233)	(7,314,359)	(241,565)
Prepayments for construction-in-progress and equipment-in-transit	<u>511,138</u>	<u>2,130,938</u>	<u>70,377</u>
Properties, net	<u>14,024,329</u>	<u>21,512,478</u>	<u>710,475</u>
INTANGIBLE ASSETS (Notes 2 and 16)			
Patents	208,581	11,152,098	368,311
Goodwill	497,803	10,812,564	357,098
Deferred pension cost	416	342	11
Other	<u>228,850</u>	<u>595,784</u>	<u>19,677</u>
Total intangible assets	<u>935,650</u>	<u>22,560,788</u>	<u>745,097</u>
OTHER ASSETS			
Assets leased to others	50,828	-	-
Refundable deposits	150,860	185,306	6,120
Deferred charges (Note 2)	243,249	763,516	25,216
Deferred income tax assets (Notes 2 and 24)	2,366,488	3,675,521	121,388
Restricted assets (Note 28)	95,688	68,700	2,269
Other (Notes 2, 11 and 20)	<u>2,676,021</u>	<u>8,712,949</u>	<u>287,756</u>
Total other assets	<u>5,583,134</u>	<u>13,405,992</u>	<u>442,749</u>
TOTAL	<u>\$ 190,381,744</u>	<u>\$ 254,592,126</u>	<u>\$ 8,408,208</u>

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

LIABILITIES AND STOCKHOLDERS' EQUITY	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
CURRENT LIABILITIES			
Notes and accounts payable (Note 27)	\$ 61,974,657	\$ 77,268,293	\$ 2,551,878
Income tax payable (Notes 2 and 24)	6,809,417	10,570,682	349,109
Accrued expenses (Notes 17 and 27)	33,426,028	46,171,290	1,524,862
Payable for purchase of equipment	441,976	812,240	26,825
Long-term liabilities - current portion (Note 19)	12,188	-	-
Other current liabilities (Notes 2 and 18)	<u>12,976,837</u>	<u>17,307,355</u>	<u>571,596</u>
Total current liabilities	<u>115,641,103</u>	<u>152,129,860</u>	<u>5,024,270</u>
LONG-TERM LIABILITIES			
Long-term bank loans, net of current portion (Note 19)	<u>12,188</u>	<u>-</u>	<u>-</u>
OTHER LIABILITIES			
Guarantee deposits received	<u>13,959</u>	<u>42,946</u>	<u>1,418</u>
Total liabilities	<u>115,667,250</u>	<u>152,172,806</u>	<u>5,025,688</u>
STOCKHOLDERS' EQUITY (Note 21)			
Capital stock - NT\$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 817,653 thousand shares in 2010 and 852,052 thousand shares in 2011			
Common stock	8,176,532	8,520,521	281,400
Capital surplus			
Additional paid-in capital - issuance of shares in excess of par	10,777,623	14,809,608	489,105
Treasury stock transactions	-	1,730,458	57,150
Long-term equity investments	18,411	18,037	596
Merger	24,710	24,423	807
Expired stock options	-	37,068	1,224
Retained earnings			
Legal reserve	10,273,674	10,273,674	339,300
Special reserve	-	580,856	19,184
Accumulated earnings	52,876,892	75,762,315	2,502,141
Other equity			
Cumulative translation adjustments (Note 2)	(579,849)	32,134	1,061
Net loss not recognized as pension cost	(121)	(293)	(10)
Unrealized valuation (loss) gain on financial instruments (Notes 2 and 26)	(885)	2,939	97
Treasury stock (Note 22)	<u>(6,852,493)</u>	<u>(10,365,144)</u>	<u>(342,321)</u>
Equity attributable to stockholders of the parent	74,714,494	101,426,596	3,349,734
MINORITY INTEREST	<u>-</u>	<u>992,724</u>	<u>32,786</u>
Total stockholders' equity	<u>74,714,494</u>	<u>102,419,320</u>	<u>3,382,520</u>
TOTAL	<u>\$ 190,381,744</u>	<u>\$ 254,592,126</u>	<u>\$ 8,408,208</u>

HTC CORPORATION AND SUBSIDIARIES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 27)	\$ 278,761,244	\$ 465,794,773	\$ 15,383,427
COST OF REVENUES (Notes 2, 10, 23 and 27)	<u>194,892,505</u>	<u>333,997,246</u>	<u>11,030,656</u>
GROSS PROFIT	<u>83,868,739</u>	<u>131,797,527</u>	<u>4,352,771</u>
OPERATING EXPENSES (Notes 23 and 27)			
Selling and marketing	21,757,601	40,422,905	1,335,014
General and administrative	5,038,543	6,626,010	218,832
Research and development	<u>12,940,014</u>	<u>15,960,845</u>	<u>527,126</u>
Total operating expenses	<u>39,736,158</u>	<u>63,009,760</u>	<u>2,080,972</u>
OPERATING INCOME	<u>44,132,581</u>	<u>68,787,767</u>	<u>2,271,799</u>
NONOPERATING INCOME AND GAINS			
Interest income	313,888	701,724	23,175
Gain on disposal of properties	879	-	-
Gains on sale of investments	3,001	29	1
Exchange gain (Note 2)	-	1,520,643	50,221
Rental revenues (Note 27)	6,486	8,772	290
Valuation gains on financial instruments, net (Notes 2 and 6)	450,276	256,868	8,483
Other	<u>368,414</u>	<u>295,228</u>	<u>9,750</u>
Total nonoperating income and gains	<u>1,142,944</u>	<u>2,783,264</u>	<u>91,920</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	3,562	30,979	1,023
Loss on equity-method investments (Notes 2 and 14)	-	3,961	131
Losses on disposal of properties	13,066	465	15
Exchange loss (Note 2)	214,679	-	-
Impairment losses (Notes 2, 13 and 16)	32,771	18,608	615
Other	<u>47,059</u>	<u>93,331</u>	<u>3,082</u>
Total nonoperating expenses and losses	<u>311,137</u>	<u>147,344</u>	<u>4,866</u>
INCOME BEFORE INCOME TAX	44,964,388	71,423,687	2,358,853
INCOME TAX (Notes 2 and 24)	<u>(5,449,544)</u>	<u>(9,124,639)</u>	<u>(301,352)</u>
NET INCOME	<u>\$ 39,514,844</u>	<u>\$ 62,299,048</u>	<u>\$ 2,057,501</u>

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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)
ATTRIBUTABLE TO				
Stockholders of the parent	\$ 39,533,600		\$ 61,975,796	\$ 2,046,824
Minority interest	<u>(18,756)</u>		<u>323,252</u>	<u>10,677</u>
	<u>\$ 39,514,844</u>		<u>\$ 62,299,048</u>	<u>\$ 2,057,501</u>
	<u>2010</u>		<u>2011</u>	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>	<u>US\$</u>
				(Note 3)
BASIC EARNINGS PER SHARE				
(Note 25)	<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 25)	<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 consolidated financial statements.

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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 Transaction	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	Minority Interest	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)	\$ -	\$ 34,207	\$ 65,674,657
Appropriation of the 2009 net earnings															
Stock dividends	386,968	-	-	-	-	-	-	-	(386,968)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(20,122,332)	-	-	-	-	-	(20,122,332)
Transfer of employee bonuses to common stock	50,206	1,893,488	-	-	-	-	-	-	-	-	-	-	-	-	1,943,694
Net income in 2010	-	-	-	-	-	-	-	-	39,533,600	-	-	-	-	(18,756)	39,514,844
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(594,937)	-	-	-	-	(594,937)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	773	-	-	773
Adjustment due to the movement of investees' other equity under equity method	-	-	-	-	-	-	-	-	-	-	(87)	-	-	-	(87)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(11,686,667)	-	(11,686,667)
Retirement of treasury stock	(150,000)	(172,188)	-	-	(479)	-	-	-	(4,511,507)	-	-	-	4,834,174	-	-
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,451)	(15,451)
BALANCE, DECEMBER 31, 2010	8,176,532	10,777,623	-	18,411	24,710	-	10,273,674	-	52,876,892	(579,849)	(121)	(885)	(6,852,493)	-	74,714,494
Appropriation of the 2010 net earnings															
Stock dividends	403,934	-	-	-	-	-	-	-	(403,934)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	580,856	(580,856)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(29,891,089)	-	-	-	-	-	(29,891,089)
Transfer of employee bonuses to common stock	40,055	4,205,796	-	-	-	-	-	-	-	-	-	-	-	-	4,245,851
Net income in 2011	-	-	-	-	-	-	-	-	61,975,796	-	-	-	-	323,252	62,299,048
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	611,983	-	-	-	-	611,983
Adjustment due to the movement of investees' other equity under equity method	-	-	-	-	-	-	-	-	-	-	(172)	-	-	-	(172)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	3,824	-	-	3,824
Adjustment due to changes in ownership percentage in investees and the movement of investees' other equity under equity method	-	-	-	(374)	-	-	-	-	-	-	-	-	-	-	(374)
Transfer of treasury stock to employees	-	-	1,750,767	-	-	37,503	-	-	-	-	-	-	4,113,821	-	5,902,091
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(16,135,808)	-	(16,135,808)
Retirement of treasury stock	(100,000)	(173,811)	(20,309)	-	(287)	(435)	-	-	(8,214,494)	-	-	-	8,509,336	-	-
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	669,472	669,472
BALANCE, DECEMBER 31, 2011	<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>\$ 992,724</u>	<u>\$ 102,419,320</u>

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

HTC CORPORATION AND SUBSIDIARIES

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

	Other Equity														
	Capital Stock Issued and Outstanding Common Stock	Issuance of Shares in Excess of Par	Treasury Stock Transactions	Capital Surplus			Retained Earnings			Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Gain (Loss) on Financial Instruments	Treasury Stock	Minority Interest	Total
				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															
Stock dividends	13,340	-	-	-	-	-	-	-	(13,340)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	19,184	(19,184)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(987,189)	-	-	-	-	-	(987,189)
Transfer of employee bonuses to common stock	1,323	138,901	-	-	-	-	-	-	-	-	-	-	-	-	140,224
Net income in 2011	-	-	-	-	-	-	-	-	2,046,824	-	-	-	-	10,677	2,057,501
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	20,211	-	-	-	-	20,211
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	126	-	-	126
Adjustment due to the movement of investees' other equity under equity method	-	-	-	-	-	-	-	-	-	-	(6)	-	-	-	(6)
Adjustment due to changes in ownership percentage of investees other equity under equity method	-	-	-	(12)	-	-	-	-	-	-	-	-	-	-	(12)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(532,904)	-	(532,904)
Transfer of treasury stock to employees	-	-	57,821	-	-	1,239	-	-	-	-	-	-	135,864	-	194,924
Retirement of treasury stock	(3,303)	(5,740)	(671)	-	(9)	(15)	-	-	(271,293)	-	-	-	281,031	-	-
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	22,109	22,109
BALANCE, DECEMBER 31, 2011	\$ 281,400	\$ 489,105	\$ 57,150	\$ 596	\$ 807	\$ 1,224	\$ 339,300	\$ 19,184	\$ 2,502,141	\$ 1,061	\$ (10)	\$ 97	\$ (342,321)	\$ 32,786	\$ 3,382,520

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

HTC CORPORATION AND SUBSIDIARIES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 39,514,844	\$ 62,299,048	\$ 2,057,501
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	905,138	1,564,225	51,660
Amortization	97,196	836,611	27,630
Compensation cost recognized for the transfer of treasury stock to employees	-	1,788,270	59,060
Amortization of premium on financial assets	385	3,349	111
Prepaid pension cost	(21,364)	(24,878)	(822)
Loss on equity-method investments	-	3,961	131
Loss on disposal of properties and deferred charges, net	12,187	465	15
Transfer of properties to expenses	1,151	324	11
Gains on sale of investments, net	(3,001)	(29)	(1)
Impairment losses on financial assets carried at cost and goodwill	32,771	18,608	615
Deferred income tax assets	(1,537,739)	(2,504,033)	(82,699)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(432,144)	229,037	7,564
Notes receivable	-	(755,450)	(24,950)
Accounts receivable	(34,472,524)	(1,368,605)	(45,200)
Inventories	(20,435,168)	(1,995,952)	(65,919)
Prepayments	683,128	(4,402,607)	(145,401)
Other current assets	(582,339)	(287,655)	(9,500)
Other current financial assets	(547,932)	(622,371)	(20,555)
Other assets - other	(640,985)	(6,012,050)	(198,555)
Notes and accounts payable	37,129,824	15,167,466	500,924
Income tax payable	2,538,408	3,751,382	123,894
Accrued expenses	18,413,894	16,823,509	555,616
Other current liabilities	5,392,059	3,994,726	131,931
Net cash provided by operating activities	46,047,789	88,507,351	2,923,061
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	(3,551,180)	(490,000)	(16,183)
Proceeds of the sale of available-for-sale financial assets	5,610,175	200,029	6,606
Purchase of held-to-maturity financial assets	(208,331)	-	-
Increase in financial assets carried at cost	(286,876)	(2,300,272)	(75,969)

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HTC CORPORATION AND SUBSIDIARIES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Acquisition of investments accounted for by the equity method	\$ -	\$ (76,214)	\$ (2,517)
Acquisition of subsidiaries	(78,272)	(20,210,729)	(667,483)
Purchase of properties and assets leased to others	(4,990,996)	(8,411,182)	(277,789)
Proceeds of the sale of properties and deferred charges	20,064	580	19
Increase in refundable deposits	(21,817)	(34,309)	(1,133)
Increase in deferred charges	(90,721)	(574,267)	(18,966)
Decrease in restricted assets	10,564	26,988	891
Increase in intangible assets	(220,943)	(2,294,360)	(75,774)
Net cash used in investing activities	(3,808,333)	(34,163,736)	(1,128,298)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowings	(42,326)	-	-
Decrease in long-term bank loans	(22,499)	(24,376)	(805)
Increase in guarantee deposits received	12,749	28,987	958
Cash dividends	(20,122,332)	(29,891,089)	(987,189)
Purchase of treasury stock	(11,686,667)	(16,135,808)	(532,904)
Transfer of treasury stock to employees	-	4,113,821	135,864
(Decrease) increase in minority interest	(15,451)	669,472	22,109
Net cash used in financing activities	(31,876,526)	(41,238,993)	(1,361,967)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(538,359)	(65,975)	(2,180)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,824,571	13,038,647	430,616
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	64,638,290	74,462,861	2,459,225
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 74,462,861	\$ 87,501,508	\$ 2,889,841
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the year			
Interest	\$ 2,386	\$ 32,197	\$ 1,063
Income tax	\$ 4,448,828	\$ 7,877,290	\$ 260,157
NONCASH INVESTING AND FINANCING ACTIVITIES			
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

(Continued)

HTC CORPORATION AND SUBSIDIARIES

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
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
PURCHASE OF PROPERTIES AND ASSETS LEASED TO OTHERS			
Purchase cost of properties and assets leased to others	\$ 5,278,345	\$ 8,781,446	\$ 290,017
Increase in payable for purchase of equipment	(288,425)	(370,264)	(12,228)
Decrease in lease payable	<u>1,076</u>	<u>-</u>	<u>-</u>
Cash paid for the purchase of properties and assets leased to others	<u>\$ 4,990,996</u>	<u>\$ 8,411,182</u>	<u>\$ 277,789</u>
ACQUISITION OF SUBSIDIARIES			
Expected net cash outflow on the acquisition of subsidiaries	\$ 245,927	\$ 20,303,485	\$ 670,547
Increase in other payable	<u>(167,655)</u>	<u>(92,756)</u>	<u>(3,064)</u>
Cash paid for acquisition of subsidiaries	<u>\$ 78,272</u>	<u>\$ 20,210,729</u>	<u>\$ 667,483</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2011

(In Thousands, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company,” had 12,575 and 17,413 employees as of December 31, 2010 and 2011, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

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

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

The consolidated entities as of December 31, 2010 and 2011 were as follows:

Investor	Investee	Company Type/ Main Businesses	% of Ownership		Remark on Investee
			2010	2011	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	100.00	100.00	Incorporated in August 2000
	BandRich Inc.	Design, manufacture and sale of electronic devices	18.08	18.08	Incorporated in April 2006, HTC lost significant influence in July 2010
	Communication Global Certification Inc.	Testing and certification services	100.00	100.00	Investment received in January 2007
	High Tech Computer Asia Pacific Pte. Ltd.	International holding, marketing, repair and after-sales services	100.00	100.00	Incorporated in July 2007
	HTC Investment Corporation	General investing activities	100.00	100.00	Incorporated in July 2008
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales services	1.00	1.00	Incorporated in December 2007
	HTC I Investment Corporation	General investing activities	100.00	100.00	Incorporated in September 2009
	HTC Holding Cooperatief U.A.	International holding company	1.00	1.00	Incorporated in October 2009
	Huada Digital Corporation	Software services	100.00	50.00	Incorporated in January 2010; change in ownership percentage in October 2011
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	-	100.00	Incorporated in August 2011

(Continued)

Investor	Investee	Company Type/ Main Businesses	% of Ownership		Remark on Investee
			2010	2011	
H.T.C. (B.V.I.) Corp.	HTC EUROPE CO., LTD.	Marketing, repair and after-sales services	-	-	Incorporated in July 2003 and sold to an indirect subsidiary of HTC in February 2010 for Company reorganization
	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2003
	Exedea Inc.	Distribution and sales	100.00	100.00	Incorporated in December 2004 and investment received in July 2005
	HTC NIPPON Corporation	Marketing, repair and after-sales services	-	-	Incorporated in March 2006, and sold to an indirect subsidiary of HTC in April 2010 for Company reorganization
	HTC BRASIL	//	-	-	Incorporated in October 2006, and sold to an indirect subsidiary of HTC in February 2010 for Company reorganization
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer Singapore Pte. Ltd.	Marketing, repair and after-sales services	-	-	Incorporated in July 2007 and merged with High Tech Computer Asia Pacific Pte. Ltd. in February 2010, with the investor as survivor entity
	High Tech Computer (H.K.) Limited	//	100.00	100.00	Incorporated in August 2007
	HTC (Australia and New Zealand) Pty. Ltd.	//	100.00	100.00	Incorporated in August 2007
	HTC Philippines Corporation	//	99.99	99.99	Incorporated in December 2007
	PT. High Tech Computer Indonesia	//	99.00	99.00	Incorporated in December 2007
	HTC India Private Ltd.	//	99.00	99.00	Incorporated in January 2008
	HTC (Thailand) Limited	//	100.00	100.00	Incorporated in November 2007 and investment received in September 2008
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	-	-	Incorporated in January 2007; investment received in July 2008; and sold to an indirect subsidiary of HTC in February 2010
	HTC Malaysia Sdn. Bhd.	Marketing, repair and after-sales services	100.00	100.00	Incorporated in July 2008 and investment received in January 2009
	HTC Innovation Limited	//	100.00	100.00	Incorporated in January 2009
	HTC Communication Co., Ltd.	Sale of smart handheld devices	100.00	100.00	Incorporated in December 2008 and investment received in March 2009
	HTC Communication Technologies (SH)	Design, research and development of application software	-	100.00	Incorporated in November 2011
	HTC America Inc.	Sale of smart handheld devices	-	-	Incorporated in January 2003; was acquired from a direct subsidiary of HTC in November 2009 and then sold to an indirect subsidiary of HTC in April 2010; both transactions were for the Company's reorganization

(Continued)

Investor	Investee	Company Type/ Main Businesses	% of Ownership		Remark on Investee
			2010	2011	
High Tech Computer Asia Pacific Pte. Ltd.	One & Company Design, Inc.	Design, research and development of application software	-	-	Investment received in October 2008; was acquired from a direct subsidiary of HTC in November 2009 and then sold to an indirect subsidiary of HTC in April 2010; both transactions were for the Company's reorganization
	HTC HK, Limited	International holding, marketing, repair and after-sales services	100.00	100.00	Incorporated in August 2006 and was acquired from HTC in December 2009 for Company reorganization
	HTC Holding Cooperatief U.A.	International holding company	99.00	99.00	Incorporated in October 2009
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	-	100.00	Investment received in November 2011
High Tech Computer Singapore Pte. Ltd.	HTC India Private Ltd.	Marketing, repair and after-sales services	-	-	Incorporated in January 2008 and sold to an affiliate in February 2010 for Company reorganization
HTC HK, Limited	HTC Belgium BVBA/SPRL	Marketing, repair and after-sales services	-	-	Incorporated in October 2006 and sold to an affiliate in March 2010 for Company reorganization
	HTC Corporation (Shanghai WGQ)	Repair and after-sales services	100.00	100.00	Incorporated in July 2007 and was acquired from an affiliate in December 2009
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2007; investment received in July 2008; and was acquired from a direct subsidiary of HTC in February 2010 for Company reorganization
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	Incorporated in October 2009
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	Incorporated in January 2008 and was acquired from an indirect subsidiary of HTC in February 2010 for Company reorganization
	HTC South Eastern Europe Limited Liability Company	//	0.67	0.67	Incorporated in June 2010
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	Marketing, repair and after-sales services	100.00	100.00	Incorporated in July 2003 and was acquired from an affiliate for Company reorganization in February 2010
	HTC BRASIL	//	99.99	99.99	Incorporated in October 2006 and was acquired from an HTC subsidiary in February 2010 for Company reorganization

(Continued)

Investor	Investee	Company Type/ Main Businesses	% of Ownership		Remark on Investee
			2010	2011	
HTC Netherlands B.V.	HTC Belgium BVBA/SPRL	Marketing, repair and after-sales services	100.00	100.00	Incorporated in October 2006 and was acquired from an indirect subsidiary of HTC in March 2010 for Company reorganization
	HTC NIPPON Corporation	"	100.00	100.00	Incorporated in March 2006, and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization
	HTC FRANCE CORPORATION	"	100.00	100.00	Incorporated in April 2010
	HTC South Eastern Europe Limited Liability Company	"	99.33	99.33	Incorporated in June 2010
	HTC Nordic ApS	"	100.00	100.00	Incorporated in July 2010, and was acquired from an indirect investee of HTC in October 2010 for Company reorganization
	HTC Italia SRL	"	100.00	100.00	Incorporated in February 2007 and was acquired from an indirect investee of HTC in October 2010 Company reorganization
	HTC Germany GmbH	"	100.00	100.00	Incorporated in October 2010
	HTC Iberia, S.L.	"	100.00	100.00	Incorporated in October 2010
	HTC Poland sp. z.o.o.	"	100.00	100.00	Incorporated in October 2010
	Saffron Media Group Ltd.	Design, research and development of application software	-	100.00	Investment received in January 2011
	HTC Communication Canada, Ltd.	Marketing, repair and after-sales services	-	100.00	Incorporated in April 2011
	HTC Luxembourg S.a.r.l.	Online/download media services	-	100.00	Incorporated in May 2011
	HTC Norway AS	Marketing, repair and after-sales services	-	100.00	Incorporated in August 2011
	HTC RUS LLC	"	-	100.00	Incorporated in June 2011, and investment received in August 2011.
	HTC Communication Sweden AB	"	-	100.00	Incorporated in September 2011
HTC Belgium BVBA/SPRL	HTC Italia SRL	Marketing, repair and after-sales services	-	-	Incorporated in February 2007 and sold to an indirect subsidiary of HTC for the reorganization in October 2010
	HTC Nordic ApS	"	-	-	Incorporated in July 2010 and sold to an indirect subsidiary of HTC for the reorganization in October 2010
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	Incorporated in April 2010
HTC FRANCE CORPORATION	ABAXIA SAS	Design, research and development of application software	100.00	100.00	Investment received in July 2010
HTC America Holding Inc.	HTC America Inc.	Sale of smart handheld devices	100.00	100.00	Incorporated in January 2003 and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization

(Continued)

Investor	Investee	Company Type/ Main Businesses	% of Ownership		Remark on Investee
			2010	2011	
HTC America Holding Inc.	One & Company Design, Inc.	Design, research and development of application software	100.00	100.00	Investment received in October 2008, and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization
	HTC America Innovation Inc.	"	100.00	100.00	Incorporated in April 2010, and investment received in October 2010
	HTC America Content Services, Inc.	Online/download media services	-	100.00	Incorporated in April 2011
	Dashwire, Inc.	Design, research and development of wireless connectivity software	-	100.00	Investment received in August 2011
	Beats Electronics, LLC	Design, research and development of audio technology	-	50.14	Investment received in October 2011
	Inquisitive Minds, Inc.	Development and sale of digital education platform	-	100.00	Investment received in October 2011
ABAXIA SAS	HTC BLR	Design, research and development of application software	100.00	100.00	Investment received in July 2010
Saffron Media Group Ltd.	Saffron Digital Ltd.	Design, research and development of application software	-	100.00	Investment received in January 2011
	Saffron Digital Inc.	"	-	100.00	Investment received in January 2011

(Concluded)

The Company acquired all the shares issued by Huada Digital Corporation in January 2010 and ABAXIA SAS in July 2010. In July 2010, the Company lost its significant influence on BandRich Inc. The carrying values of the net assets of these companies as of the acquisition date or control loss date were as follows:

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

Note: Huada Digital Corporation ("Huada") was included in the consolidated financial statements beginning January 2010. Earlier, investment in Huada was booked under prepayments for long-term investments as of December 31, 2009.

The Company acquired Saffron Media Group Ltd. in January 2011 and Dashwire, Inc. in August 2011. In October 2011, the Company (a) acquired a portion of Beats Electronics, LLC and (b) acquired Inquisitive Minds, Inc. and (c) adjusted the share pricing terms of a certain share transaction agreement with One & Company Design, Inc. In November 2011, acquired S3 Graphics Co., Ltd. The carrying values of the net assets of these companies as of the acquisition date were as follows:

	Saffron Media Group Ltd.	Dashwire, Inc.	Beats Electronics, LLC	Inquisitive Minds, Inc.	S3 Graphics Co., Ltd.	One & Company Design, Inc.	Total	
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Cash on hand and in banks	\$ 18,945	\$ 8,860	\$ 118,400	\$ 2,031	\$ -	\$ -	\$ 148,236	\$ 4,896
Other current assets	161,622	2,756	925,409	-	-	-	1,089,787	35,992
Properties	8,629	1,247	5,862	567	-	-	16,305	538
Other assets	1,130	40,164	83,982	689	-	-	125,965	4,160
Current liabilities	(142,250)	(111,898)	(292,457)	(88)	-	-	(546,693)	(18,055)
Net assets	<u>\$ 48,076</u>	<u>\$ (58,871)</u>	<u>\$ 841,196</u>	<u>\$ 3,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 833,600</u>	<u>\$ 27,531</u>
Cash consideration	\$ 1,393,717	\$ 480,905	\$ 9,102,096	\$ 360,370	\$ 9,033,450	\$ 81,183	\$ 20,451,721	\$ 675,443
Cash at the acquisition date	(18,945)	(8,860)	(118,400)	(2,031)	-	-	(148,236)	(4,896)
Net cash outflow on the acquisition of a subsidiary	<u>\$ 1,374,772</u>	<u>\$ 472,045</u>	<u>\$ 8,983,696</u>	<u>\$ 358,339</u>	<u>\$ 9,033,450</u>	<u>\$ 81,183</u>	<u>\$ 20,303,485</u>	<u>\$ 670,547</u>

Foreign Currencies

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

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

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

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

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

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

- Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity; and
- 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. Effective January 1, 2006, based on a newly released SFAS No. 37 - "Intangible Assets," goodwill arising on acquisitions of other companies is no longer amortized and instead is tested for impairment annually. If circumstances show that the fair value of goodwill has become lower than its carrying amount, an impairment loss is recognized. A reversal of this impairment loss is not allowed.

Deferred Charges

Deferred charges are telephone installation charges, computer software costs, deferred license fees and the right to the use of the land. Installation charges and computer software are amortized on a straight-line basis over 3 years; deferred license fees, over 10 years; and land use rights, over 50 years.

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.

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

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 consolidated financial statements as of and for the year ended December 31, 2011.

3. TRANSLATION INTO U.S. DOLLARS

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

4. ACCOUNTING CHANGES

Financial Instruments

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

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:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 4,304	\$ 6,436	\$ 212
Cash in banks	22,343,340	28,207,009	931,570
Time deposits	<u>52,115,217</u>	<u>59,288,063</u>	<u>1,958,059</u>
	<u>\$ 74,462,861</u>	<u>\$ 87,501,508</u>	<u>\$ 2,889,841</u>

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

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

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

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

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\$172,501 thousand (US\$5,697 thousand), including a realized settlement loss of NT\$84,367 thousand (US\$2,786 thousand) and a valuation gain of NT\$256,868 thousand (US\$8,483 thousand). Note 26 has more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
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:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ -	\$ 755,450	\$ 24,950
Accounts receivable	62,620,703	65,518,876	2,163,839
Accounts receivable from related parties	2,143	473	16
Less: Allowance for doubtful accounts	<u>(1,008,491)</u>	<u>(1,555,008)</u>	<u>(51,356)</u>
	<u>\$ 61,614,355</u>	<u>\$ 64,719,791</u>	<u>\$ 2,137,449</u>

9. OTHER CURRENT FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 747,983	\$ 1,129,204	\$ 37,293
Agency payments	22,139	249,644	8,245
Interest receivables	11,376	23,261	768
Others	<u>2,042</u>	<u>3,802</u>	<u>126</u>
	<u>\$ 783,540</u>	<u>\$ 1,405,911</u>	<u>\$ 46,432</u>

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

10. INVENTORIES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 1,859,010	\$ 2,189,984	\$ 72,327
Work-in-process	6,707,423	8,868,137	292,881
Raw materials	13,075,800	17,251,140	569,739
Inventory in transit	<u>4,771,514</u>	<u>121,329</u>	<u>4,007</u>
	<u>\$ 26,413,747</u>	<u>\$ 28,430,590</u>	<u>\$ 938,954</u>

As of December 31, 2010 and 2011, the allowances for inventory devaluation were NT\$3,535,521 thousand and NT\$4,930,857 thousand (US\$162,847 thousand), respectively.

The write-down of inventories to their net realizable value, which amounted to NT\$2,686,168 thousand in 2010 and NT\$3,381,137 thousand and (US\$111,666 thousand) in 2011, was recognized as cost of sales.

11. PREPAYMENTS

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 1,837,341	\$ 4,828,102	\$ 159,454
Prepayments to suppliers	38,990	1,248,922	41,247
Net input VAT	361,152	320,544	10,586
Software and hardware maintenance	115,425	311,416	10,285
Molding equipment	91,058	188,242	6,217
Marketing	66,295	43,200	1,427
Rent	40,812	15,488	511
Others	<u>69,665</u>	<u>119,317</u>	<u>3,941</u>
	<u>\$ 2,620,738</u>	<u>\$ 7,075,231</u>	<u>\$ 233,668</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\$6,489,046 thousand and (US\$214,309 thousand), respectively, were classified as other assets (Note 30 has more information).

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

Prepayments for others were primarily for travel and insurance expenses.

12. HELD-TO-MATURITY FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
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:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 16,513
Answer Online, Inc.	1,192	1,192	39
BandRich Inc.	15,861	15,861	524
SoundHound Inc.	58,260	67,441	2,227
GSUO Inc.	145,650	242,232	8,000
Felicis Ventures II LP	-	68,128	2,250
WI Harper Fund VII	-	47,689	1,575
NETQIN MOBILE Inc.	72,825	75,698	2,500
Luminous Optical Technology Co., Ltd.	183,000	183,000	6,044
OnLive, Inc.	-	1,211,160	40,000
KKBOX Inc.	-	302,790	10,000
TransLink Capital Partners II, L.P.	-	99,921	3,300
Shanghai F-road Commercial Co., Ltd.	-	166,555	5,501
Primavera Capital (Cayman) Fund L.L.P.	-	428,179	14,141
Prepayments for long-term investments	<u>48,065</u>	<u>-</u>	<u>-</u>
	1,024,853	3,409,846	112,614
Less: Accumulated impairment loss	<u>(1,192)</u>	<u>(1,192)</u>	<u>(39)</u>
	<u>\$ 1,023,661</u>	<u>\$ 3,408,654</u>	<u>\$ 112,575</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 2010, the Company determined that the recoverable amount of this investment was less than its carrying amount and thus recognized an impairment loss of NT\$1,192 thousand.

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT\$135,000 thousand and accounted for this investment by the equity method. After that, the Company's ownership percentage declined from 92% to 18.08% and lost its significant influence on this investee. When the Company's ownership percentage changed in July 2010, the Company transferred this investment to "financial assets carried at cost" using book value.

In 2009, the Company invested US\$2,000 thousand in SoundHound Inc. (known as Melodis Corporation until May 2010). The Company increased this investment by US\$227 thousand in 2011. As of December 31, 2011, the Company's investment in SoundHound Inc. had amounted to US\$2,227 thousand (NT\$67,441 thousand), and the ownership percentage was 4.37%.

In 2010, the Company invested US\$5,000 thousand in GSUO Inc. The Company increased this investment by US\$3,000 thousand in 2011. As of December 31, 2011, the Company's investment in GSUO Inc. had amounted to US\$8,000 thousand (NT\$242,232 thousand), and the ownership percentage was 16.61%.

In 2010, the Company invested US\$750 thousand in Felicis Ventures II LP. But because the registration of this investment had not been completed as of December 31, 2010, an amount of US\$750 (NT\$23,220 thousand) was temporarily accounted for under "prepayments for long-term investments." When the registration was completed in 2011, this investment was transferred to financial assets carried at cost. The Company increased this investment by US\$1,500 thousand in 2011. As of December 31, 2011, the Company's investment in Felicis Ventures II LP had amounted to US\$2,250 thousand (NT\$68,128 thousand).

In 2010, the Company invested US\$900 thousand in WI Harper Fund VII. Because the registration of this investment had not been completed as of December 31, 2010, an amount of US\$900 (NT\$28,134 thousand) was temporarily accounted for under "prepayments for long-term investments." When the registration was completed in 2011, this investment was transferred to financial assets carried at cost. The Company increased this investment by US\$675 thousand in 2011. As of December 31, 2011, the Company's investment had amounted to US\$1,575 thousand (NT\$47,689 thousand).

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

In December 2010, the Company acquired 10.02% equity interest in Luminous Optical Technology Co., Ltd. for NT\$183,000 thousand.

In February 2011, the Company acquired 3.79% equity interest in OnLive, Inc. for US\$40,000 thousand (NT\$1,211,160 thousand).

In March 2011, the Company acquired 11.11% equity interest in KKBOX Inc. for US\$10,000 thousand (NT\$302,790 thousand).

In 2011, the Company invested US\$3,300 thousand (NT\$99,921 thousand) in TransLink Capital Partners II, L.P.

In May 2011, the Company acquired 17.70% equity interest in Shanghai F-road Commercial Co., Ltd. for US\$5,500 thousand (NT\$166,555 thousand).

In 2011, the Company invested US\$14,141 thousand (NT\$428,179 thousand) in Primavera Capital (Cayman) Fund L.L.P.

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

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

The investment accounted for by the equity method as of December 31, 2010 and 2011 was as follows:

	2010		2011			
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value	Ownership Percentage
	NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Vitamin D Inc.	\$ -	-	\$ -	\$ -	\$ -	\$ -
SYNCTV Corporation	-		76,214	2,500	71,732	2,369
	<u>\$ -</u>		<u>\$ 76,214</u>	<u>\$ 2,500</u>	<u>\$ 71,732</u>	<u>\$ 2,369</u>

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

In September 2011, the Company acquired 20% equity interest in SYNCTV Corporation for US\$2,500 thousand and accounts has since accounted for this investment by the equity method.

On its equity-method investments, the Company had a loss of NT\$3,961 thousand (US\$131 thousand) in 2011.

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

15. PROPERTIES

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

	2010	2011			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$			NT\$	US\$ (Note 3)
Land	\$ 5,862,076	\$ 7,614,167	\$ -	\$ 7,614,167	\$ 251,467
Buildings and structures	4,192,857	5,999,807	1,008,920	4,990,887	164,830
Machinery and equipment	3,034,967	11,298,070	5,390,749	5,907,321	195,096
Molding equipment	-	172,632	172,632	-	-
Computer equipment	163,642	765,177	411,448	353,729	11,682
Transportation equipment	4,709	7,710	3,788	3,922	130
Furniture and fixtures	69,689	368,025	201,148	166,877	5,511
Leased assets	1,398	6,730	5,811	919	30
Leasehold improvements	183,853	463,581	119,863	343,718	11,352
Prepayments for construction-in-progress and equipment-in-transit	511,138	2,130,938	-	2,130,938	70,377
	<u>\$ 14,024,329</u>	<u>\$ 28,826,837</u>	<u>\$ 7,314,359</u>	<u>\$ 21,512,478</u>	<u>\$ 710,475</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, Taoyuan plant and the Shanghai employees' dormitory and as well as miscellaneous equipment.

There were no interests capitalized for 2010 and 2011.

16. INTANGIBLE ASSETS

Intangible assets as of December 31, 2010 and 2011 were as follows:

	Year Ended December 31, 2010				
	Patents	Goodwill	Deferred Pension Cost	Other	Total
	NT\$	NT\$	NT\$	NT\$	NT\$
<u>Cost</u>					
Balance, beginning of year	\$ -	\$ 286,467	\$ 490	\$ -	\$ 286,957
Additions					
Acquisition	220,943	-	-	-	220,943
The difference between the cost of investment and the Company's share in investees' net assets	-	328,921	-	257,015	585,936
The changes in deferred pension cost	-	-	(74)	-	(74)
Translation adjustment	-	(46,077)	-	(28,165)	(74,242)
Balance, end of year	<u>220,943</u>	<u>569,311</u>	<u>416</u>	<u>228,850</u>	<u>1,019,520</u>
<u>Accumulated amortization</u>					
Balance, beginning of year	-	-	-	-	-
Amortization	<u>12,362</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,362</u>
Balance, end of year	<u>12,362</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,362</u>
<u>Accumulated impairment losses</u>					
Balance, beginning of year	-	46,475	-	-	46,475
Impairment losses	-	31,579	-	-	31,579
Translation adjustment	-	(6,546)	-	-	(6,546)
Balance, end of year	<u>-</u>	<u>71,508</u>	<u>-</u>	<u>-</u>	<u>71,508</u>
Net book value, end of year	<u>\$ 208,581</u>	<u>\$ 497,803</u>	<u>\$ 416</u>	<u>\$ 228,850</u>	<u>\$ 935,650</u>

	Year Ended December 31, 2011					
	Patents	Goodwill	Deferred Pension Cost	Other	Total	
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
<u>Cost</u>						
Balance, beginning of year	\$ 220,943	\$ 569,311	\$ 416	\$ 228,850	\$ 1,019,520	\$ 33,671
Additions						
Acquisition	2,282,409	-	-	11,951	2,294,360	75,774
The difference between the cost of investment and the Company's share in investees' net assets	9,033,450	10,240,332	-	603,852	19,877,634	656,483
Owned by acquirees	21,527	-	-	62,929	84,456	2,789
Adjustments of acquisition cost	-	81,183	-	-	81,183	2,681
The changes in deferred pension cost	-	-	(74)	-	(74)	(3)
Translation adjustment	50,211	15,052	-	4,380	69,643	2,300
Balance, end of year	<u>11,608,540</u>	<u>10,905,878</u>	<u>342</u>	<u>911,962</u>	<u>23,426,722</u>	<u>773,695</u>
<u>Accumulated amortization</u>						
Balance, beginning of year	12,362	-	-	-	12,362	408
Amortization	443,551	-	-	330,812	774,363	25,574
Owned by acquirees	475	-	-	-	475	16
Translation adjustment	54	-	-	(14,634)	(14,580)	(482)
Balance, end of year	<u>456,442</u>	<u>-</u>	<u>-</u>	<u>316,178</u>	<u>772,620</u>	<u>25,516</u>
<u>Accumulated impairment losses</u>						
Balance, beginning of year	-	71,508	-	-	71,508	2,362
Impairment losses	-	18,608	-	-	18,608	615
Translation adjustment	-	3,198	-	-	3,198	105
Balance, end of year	<u>-</u>	<u>93,314</u>	<u>-</u>	<u>-</u>	<u>93,314</u>	<u>3,082</u>
Net book value, end of year	<u>\$ 11,152,098</u>	<u>\$ 10,812,564</u>	<u>\$ 342</u>	<u>\$ 595,784</u>	<u>\$ 22,560,788</u>	<u>\$ 745,097</u>

17. ACCRUED EXPENSES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 17,323,446	\$ 29,104,665	\$ 961,216
Bonus to employees	8,491,704	7,238,637	239,065
Salaries and bonuses	2,642,916	3,433,649	113,400
Services	1,843,017	1,324,631	43,748
Import, export and freight	1,321,198	1,397,747	46,162
Research materials	780,501	1,854,932	61,261
Repairs and maintenance	250,638	466,135	15,395
Donation	217,800	236,630	7,815
Meals and welfare	197,590	193,721	6,398
Insurance	127,905	191,931	6,339
Pension cost	69,610	123,877	4,091
Travel	49,691	96,085	3,173
Others	<u>110,012</u>	<u>508,650</u>	<u>16,799</u>
	<u>\$ 33,426,028</u>	<u>\$ 46,171,290</u>	<u>\$ 1,524,862</u>

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

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

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

18. OTHER CURRENT LIABILITIES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Warranty provisions	\$ 9,104,973	\$ 13,080,394	\$ 431,996
Provisions for contingent loss on purchase orders	1,942,147	2,052,881	67,799
Other payable	269,045	512,941	16,940
Agency receipts	476,948	440,862	14,560
Advance receipts	805,838	433,072	14,302
Advance revenues	-	140,815	4,651
Others	<u>377,886</u>	<u>646,390</u>	<u>21,348</u>
	<u>\$ 12,976,837</u>	<u>\$ 17,307,355</u>	<u>\$ 571,596</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, unpaid consideration for treasury stock buyback and agreed installments payable to the original stockholders of subsidiaries.

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

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

19. LONG-TERM BANK LOANS

Long-term bank loans of Communication Global Certification Inc., a direct subsidiary of HTC, as of December 31, 2010 and 2011 were as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Secured loans (Note 28)			
NT\$65,000 thousand, repayable from July 2009			
in 16 quarterly installments; 1% annual			
interest	\$ 24,376	\$ -	\$ -
Less: Current portion	<u>(12,188)</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,188</u>	<u>\$ -</u>	<u>\$ -</u>

20. PENSION PLAN

The Labor Pension Act (the “Act”), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the “Law”) before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the required monthly contributions of HTC and Communication Global Certification Inc. (CGC) to the employees’ individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions based on the Act were NT\$220,769 thousand in 2010 and NT\$351,762 thousand (US\$11,618 thousand) in 2011.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the required contributions of HTC and CGC to their respective pension funds was at 2% of monthly salaries and wages after the Act took effect. The pension funds are deposited in the Bank of Taiwan in the pension fund committees’ name. The pension fund balances were NT\$448,631 thousand and NT\$482,786 thousand (US\$15,945 thousand) as of December 31, 2010 and 2011, respectively.

H.T.C. (B.V.I.) Corp., HTC Investment Corporation, HTC I Investment Corporation, Huada Digital Corporation, High Tech Computer Asia Pacific Pte. Ltd. and HTC Investment One (BVI) Corporation have no pension plans.

Under their respective local government regulations, other subsidiaries have defined contribution pension plans covering all eligible employees. The pension fund contributions were NT\$72,115 thousand in 2010 and NT\$200,330 thousand (US\$6,616 thousand) in 2011.

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

The net pension costs of HTC and CGC under the defined benefit plan in 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Service cost	\$ 4,915	\$ 5,980	\$ 197
Interest cost	6,560	6,882	227
Projected return on plan assets	(8,598)	(9,226)	(305)
Amortization of unrecognized net transition obligation, net	74	74	3
Amortization	<u>305</u>	<u>507</u>	<u>17</u>
Net pension cost	<u>\$ 3,256</u>	<u>\$ 4,217</u>	<u>\$ 139</u>

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Present actuarial value of benefit obligation			
Vested benefits	\$ 1,525	\$ 10,026	\$ 331
Non-vested benefits	<u>191,930</u>	<u>193,962</u>	<u>6,406</u>
Accumulated benefit obligation	193,455	203,988	6,737
Additional benefits on future salaries	<u>150,645</u>	<u>163,087</u>	<u>5,386</u>
Projected benefit obligation	344,100	367,075	12,123
Plan assets at fair value	<u>(448,631)</u>	<u>(482,786)</u>	<u>(15,945)</u>
Funded status	(104,531)	(115,711)	(3,822)
Unrecognized net transitional obligation	(416)	(342)	(11)
Unrecognized pension loss	(54,414)	(68,285)	(2,255)
Additional minimum pension liability	<u>536</u>	<u>635</u>	<u>21</u>
Prepaid pension cost	<u>\$ (158,825)</u>	<u>\$ (183,703)</u>	<u>\$ (6,067)</u>

Assumptions used in actuarially determining the present value of the projected benefit obligations of HTC and CGC were as follows:

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

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

21. STOCKHOLDERS' EQUITY

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>5th Buyback</u>	<u>6th 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 HTC's Articles of Incorporation, 10% of HTC's annual net income less any deficit should first be appropriated as legal reserve. From the remainder, there should be appropriations of not more than 3% as remuneration to directors and supervisors and at least 5% as bonuses to employees.

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, HTC considers its operating environment, industry developments, and long-term interests of stockholders as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in determining the stock or cash dividends to be paid. HTC's dividend policy stipulates that at least 50% of total dividends may be distributed as cash dividends.

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

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

22. TREASURY STOCK

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.

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.

23. 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	\$ 5,265,747	\$ 15,813,869	\$ 21,079,616	\$ 6,546,170	\$ 20,198,025	\$ 26,744,195	\$ 216,195	\$ 667,064	\$ 883,259
Salary	4,544,387	14,879,114	19,423,501	5,285,153	18,609,790	23,894,943	174,548	614,611	789,159
Insurance	224,738	446,621	671,359	375,386	599,600	974,986	12,398	19,802	32,200
Pension cost	101,749	194,391	296,140	232,408	323,901	556,309	7,676	10,697	18,373
Other	394,873	293,743	688,616	653,223	664,734	1,317,957	21,573	21,954	43,527
Depreciation	469,145	435,568	904,713	963,947	600,278	1,564,225	31,835	19,825	51,660
Amortization	36,244	60,952	97,196	33,681	802,930	836,611	1,112	26,518	27,630

24. INCOME TAX

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

The income tax returns of Communication Global Certification Inc., HTC Investment Corporation and HTC I Investment Corporation through 2009 had been examined and cleared by the tax authorities.

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

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

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, also effective January 1, 2010. Provision for income tax expense (benefit) in 2010 and 2011; income tax payable, income tax receivables and deferred tax assets (liabilities) as of December 31, 2010 and 2011 were as follows:

	2010			
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT\$	NT\$	NT\$	NT\$
HTC Corporation	\$ 4,957,709	\$ 6,416,667	\$ -	\$ 3,345,010
Communication Global Certification Inc.	500	735	23	1,843
HTC Investment Corporation	132	-	216	-
HTC I Investment Corporation	159	32	-	-
Huada Digital Corporation	116	28	-	-
High Tech Computer Asia Pacific Pte. Ltd.	1,016	287	-	36

(Continued)

2010				
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT\$	NT\$	NT\$	NT\$
HTC Communication Co., Ltd.	\$ (17,031)	\$ 80,600	\$ -	\$ 56,370
HTC America Inc.	213,608	-	59,070	27,787
HTC EUROPE CO., LTD.	138,709	137,426	-	8,612
Exedea Inc.	19,356	-	4,894	2,505
HTC NIPPON Corporation	4,028	3,692	-	-
HTC BRASIL	5,006	3,575	-	2,607
HTC Corporation (Shanghai WGQ)	1,533	949	-	-
One & Company Design, Inc.	(5,034)	-	2,416	(319)
HTC Belgium BAVA/SPRL	10,468	11,005	-	733
High Tech Computer (H.K.) Limited	1,435	640	-	-
HTC (Australia and New Zealand) Pty. Ltd.	6,292	5,132	-	(1,189)
HTC India Private Limited	1,837	5,929	21	16
HTC (Thailand) Limited	1,206	720	-	-
HTC Electronics (Shanghai) Co., Ltd.	86,172	123,994	63,647	46,288
HTC Malaysia Sdn. Bhd.	1,334	(227)	-	256
HTC Innovation Limited	1,060	1,005	-	-
HTC Netherlands B.V.	1,029	958	-	-
HTC FRANCE CORPORATION	2,074	3,155	-	(78,724)
HTC South Eastern Europe Limited Liability Company	456	424	-	-
HTC Germany GmbH	2,502	605	-	-
HTC Spain, S.L.	757	419	-	-
HTC Italia SRL	3,705	(1,263)	-	-
HTC Nordic ApS	1,092	275	-	(55)
HTC Poland sp. z.o.o.	225	-	-	734
HTC HK, Limited	58	54	-	-
HTC America Innovation Inc.	8,035	12,601	-	5,174
	<u>\$ 5,449,544</u>	<u>\$ 6,809,417</u>	<u>\$ 130,287</u>	<u>\$ 3,417,684</u>
				(Concluded)

2011							
	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$ US\$ (Note 3)
HTC Corporation	\$ 7,873,875	\$ 260,044	\$ 9,653,090	\$ 318,805	\$ -	\$ -	\$ 5,113,822 \$ 168,890
Communication Global Certification Inc.	7,072	234	6,047	200	-	-	1,677 55
High Tech Computer Asia Pacific Pte. Ltd.	11,128	368	10,507	347	-	-	37 1
HTC Investment Corporation	229	8	26	1	-	-	- -
HTC I Investment Corporation	167	6	-	-	29	1	- -
Huada Digital Corporation	271	9	15	1	-	-	- -
Exedea Inc.	656	22	-	-	152	5	- -
High Tech Computer (H.K.) Limited	2,630	87	-	-	-	-	- -
							(Continued)

2011

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
HTC (Australia and New Zealand) Pty. Ltd.	\$ 11,261	\$ 372	\$ 11,775	\$ 389	\$ -	\$ -	\$ (884)	\$ (29)
PT. High Tech Computer Indonesia	223	7	226	7	-	-	-	-
HTC (Thailand) Limited	3,621	120	2,285	75	-	-	-	-
HTC India Private Limited	2,772	92	-	-	-	-	-	-
HTC Malaysia Sdn. Bhd.	3,448	114	769	25	-	-	301	10
HTC Innovation Limited	2,677	88	1,542	51	-	-	-	-
HTC Communication Co., Ltd.	43,337	1,431	532,692	17,593	-	-	689,907	22,785
HTC HK, Limited	3,343	110	4,877	161	-	-	-	-
HTC Corporation (Shanghai WGQ)	3,917	129	2,082	69	-	-	-	-
HTC Electronics (Shanghai) Co., Ltd.	254,684	8,411	185,536	6,127	-	-	48,090	1,588
HTC Netherlands B.V.	1,400	46	1,630	54	-	-	-	-
HTC EUROPE CO., LTD.	159,811	5,278	125,595	4,148	-	-	9,451	312
HTC BRASIL	196	6	-	-	-	-	2,720	90
HTC Belgium BAVA/SPRL	1,043	34	5,983	197	-	-	-	-
HTC NIPPON Corporation	3,213	106	-	-	221	8	-	-
HTC FRANCE CORPORATION	314	10	582	19	-	-	-	-
HTC South Eastern Europe Limited Liability Company	1,267	42	1,282	42	-	-	-	-
HTC Nordic ApS	6,466	214	423	14	-	-	(79)	(3)
HTC Italia SRL	4,177	138	-	-	-	-	-	-
HTC Germany GmbH	7,543	249	4,869	161	-	-	-	-
HTC Iberia S.L.	3,305	109	3,313	109	-	-	-	-
HTC Poland sp. z.o.o.	15	1	-	-	-	-	1,794	59
HTC Communication Canada, Ltd.	90	3	91	3	-	-	-	-
HTC Norway AS.	43	1	44	1	-	-	-	-
HTC Communication Sweden AB	14	1	14	1	-	-	-	-
HTC America Holding Inc.	126,330	4,172	-	-	-	-	(128,209)	(4,234)
ABAXIA SAS	7,321	242	-	-	-	-	-	-
HTC America Inc.	509,591	16,830	-	-	252,748	8,347	104,038	3,436
One & Company Design, Inc.	10,418	344	-	-	9,965	329	20,196	667
HTC America Innovation Inc.	60,318	1,992	14,795	489	-	-	58,772	1,941
Dashwire, Inc.	-	-	566	19	-	-	-	-
Beats Electronics, LLC	5,553	183	-	-	-	-	-	-
Saffron Digital Inc.	(9,100)	(301)	26	1	-	-	84	3
	<u>\$ 9,124,639</u>	<u>\$ 301,352</u>	<u>\$10,570,682</u>	<u>\$ 349,109</u>	<u>\$ 263,115</u>	<u>\$ 8,690</u>	<u>\$ 5,921,717</u>	<u>\$ 195,571</u>

(Concluded)

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Allowance for loss on decline in value of inventory	\$ 596,374	\$ 834,797	\$ 27,570
Unrealized marketing expenses	2,705,547	4,922,310	162,565
Unrealized warranty expense	1,539,698	2,247,065	74,212
Capitalized expense	74,433	69,302	2,289
Unrealized royalties	2,522,645	4,817,745	159,112
Unrealized bad-debt expenses	64,353	153,749	5,078
Unrealized contingent losses on purchase orders	206,795	348,990	11,526
Unrealized exchange losses	387,258	138,093	4,561
Unrealized research materials expenses	-	138,502	4,574
Unrealized sales allowance	-	71,874	2,374
Unrealized salary and welfare	55,711	307,356	10,151
Other	11,236	129,454	4,275
Loss carryforwards	1,523	90,371	2,984
Tax credit carryforwards	<u>3,148,156</u>	<u>3,125,027</u>	<u>103,208</u>
Total deferred tax assets	11,313,729	17,394,635	574,479
Less: Valuation allowance	<u>(7,788,708)</u>	<u>(11,132,656)</u>	<u>(367,670)</u>
Total deferred tax assets, net	3,525,021	6,261,979	206,809
Deferred tax liabilities			
Unrealized pension cost	(27,063)	(30,778)	(1,017)
Unrealized valuation gains on financial instruments	(76,547)	(43,668)	(1,442)
Unrealized investment income	-	(240,760)	(7,951)
Unrealized depreciation	<u>(3,727)</u>	<u>(25,056)</u>	<u>(828)</u>
	3,417,684	5,921,717	195,571
Less: Current portion	<u>(1,051,196)</u>	<u>(2,246,196)</u>	<u>(74,183)</u>
Deferred tax assets - noncurrent	<u>\$ 2,366,488</u>	<u>\$ 3,675,521</u>	<u>\$ 121,388</u>

Details of the tax credit carryforwards were as follows:

Credit Grant		2010	2011	
Year	Validity Period	NT\$	NT\$	US\$ (Note 3)
2007	2007-2011	\$ 4,404	\$ -	\$ -
2008	2008-2012	833,163	814,121	26,887
2009	2009-2013	2,310,589	2,310,900	76,321
2010	2010-2014	<u>-</u>	<u>6</u>	<u>-</u>
		<u>\$ 3,148,156</u>	<u>\$ 3,125,027</u>	<u>\$ 103,208</u>

As of December 31, 2010 and 2011, the loss carryforwards of HTC BRASIL that gave rise to deferred income tax assets in the Federative Republic of Brazil were NT\$1,523 thousand and NT\$1,411 thousand (US\$47 thousand), respectively. Taxation could be made on its net income after deduction of losses incurred in the preceding years, but the deduction cannot exceed 30% of the taxable income of the current year.

As of December 31, 2011, the loss carryforwards of Saffron Digital Inc. and Dashwire, Inc. that gave rise to deferred income tax assets in the United States were NT\$4,330 thousand (US\$143 thousand) and NT\$84,630 thousand (US\$2,795 thousand), respectively, and could be carried forward for 20 years.

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

The income taxes in 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 6,890,038	\$ 11,581,019	\$ 382,477
Increase in deferred income tax assets	(1,537,739)	(2,504,033)	(82,699)
Underestimation of prior year's income tax	<u>97,245</u>	<u>47,653</u>	<u>1,574</u>
Income tax	<u>\$ 5,449,544</u>	<u>\$ 9,124,639</u>	<u>\$ 301,352</u>

The integrated income tax information is as follows:

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

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

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

25. EARNINGS PER SHARE

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

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

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

26. 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	1,023,661	1,023,661	3,408,654	112,575	3,408,654	112,575

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 listed above exclude refundable deposits, guarantee deposits and long-term bank loans. The fair values of long-term bank loans were based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

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\$ (Note 3)	US\$ (Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ -	\$ 450,276	\$ 256,868	\$ 8,483
Available-for-sale financial assets - current	441,948	736,031	24,308	-	-	-
Available-for-sale financial assets - noncurrent	538	279	9	-	-	-
Held-to-maturity financial assets - noncurrent	207,467	203,783	6,730	-	-	-
Financial assets carried at cost	-	-	-	1,023,661	3,408,654	112,575

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

As of December 31, 2010 and 2011, financial assets exposed to fair value interest rate risk amounted to NT\$207,946 thousand and NT\$204,597 thousand (US\$6,757 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$52,210,905 thousand and NT\$59,356,763 thousand (US\$1,960,328 thousand), respectively.

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.

27. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of HTC's chairperson
VIA Technologies, Inc.	Same chairperson as HTC's
Chander Electronics Corp.	Same chairperson as HTC's
Way-Lien Technology Co., Ltd.	Significant stockholder of HTC
WTI Investment International, Ltd.	Its significant stockholder in substance is HTC's chairperson
VIABASE CO., LTD.	Chairperson of its parent company is the same as HTC's
S3 Graphics Co., Ltd.	A wholly owned subsidiary of VIABASE CO., LTD. and WTI Investment International, Ltd.
Employees' Welfare Committee	Employees' Welfare Committee of HTC
HTC Cultural and Educational Foundation	A nonprofit organization with over one third of its total funds donated by the Company
HTC Social Welfare and Charity Foundation	A nonprofit organization with over one third of its total funds donated by the Company

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)	
Chander Electronics Corp.	\$ 270,931	-	\$ 172,540	\$ 5,698	-

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)	
Employees' Welfare Committee	\$ 34,138	-	\$ 52,540	\$ 1,735	-
VIA Technologies, Inc.	2,353	-	858	28	-
Others	1,701	-	1,863	62	-
	\$ 38,192	-	\$ 55,261	\$ 1,825	-

The selling prices for products sold to related parties were similar to those for sales to third parties, except those for the respective Employees' Welfare Committees. The collection terms for products sold to related parties were similar to those for sales to third parties.

Accounts Receivable

Related Party	December 31				
	2010		2011		
	Amount	% to Total Notes and Accounts Receivable	Amount		% to Total Notes and Accounts Receivable
			NT\$	US\$ (Note 3)	
VIA Technologies, Inc.	\$ 2,113	-	\$ -	\$ -	-
Others	<u>30</u>	<u>-</u>	<u>473</u>	<u>16</u>	<u>-</u>
	<u>\$ 2,143</u>	<u>-</u>	<u>\$ 473</u>	<u>\$ 16</u>	<u>-</u>

Accounts Payable

Related Party	December 31				
	2010		2011		
	Amount	% to Total Notes and Accounts Payable	Amount		% to Total Notes and Accounts Payable
			NT\$	US\$ (Note 3)	
Chander Electronics Corp.	\$ <u>126,093</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

Other Receivables

Related Party	December 31				
	2010		2011		
	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
			NT\$	US\$ (Note 3)	
Chander Electronics Corp.	\$ 20	-	\$ 966	\$ 32	-
Others	<u>107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 127</u>	<u>-</u>	<u>\$ 966</u>	<u>\$ 32</u>	<u>-</u>

Accrued Expenses

Related Party	December 31				
	2010		2011		
		% to Total			% to Total
	Amount	Accrued	Amount		Accrued
	NT\$	Expenses	NT\$	US\$	Expenses
				(Note 3)	
HTC Cultural and Educational Foundation	\$ 217,800	1	\$ 217,800	\$ 7,193	1
Way-Lien Technology Inc.	<u>400</u>	<u>-</u>	<u>210</u>	<u>7</u>	<u>-</u>
	<u>\$ 218,200</u>	<u>1</u>	<u>\$ 218,010</u>	<u>\$ 7,200</u>	<u>1</u>

Service Fees

Related Party	2010		2011		% to Total Service Expenses
	Amount	% to Total	Amount		
	NT\$	Service Expenses	NT\$	US\$ (Note 3)	
Way-Lien Technology Inc.	\$ 2,000	-	\$ 2,400	\$ 79	-

Rental Revenues

Related Party	2010		2011		% to Total Service Expenses
	Amount	% to Total	Amount		
	NT\$	Service Expenses	NT\$	US\$ (Note 3)	
Chander Electronics Corp.	\$ -	-	\$ 920	\$ 30	11

Leasing - Lessee

Operating expenses - rental expenses

Related Party	2010		2011		% to Total Rental Expenses
	Amount	% to Total	Amount		
	NT\$	Rental Expenses	NT\$	US\$ (Note 3)	
VIA Technologies Inc.	\$ 12,212	5	\$ 5,209	\$ 172	1

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.

Donation

Related Party	2010		2011		% to Total Donation Expenses
	Amount	% to Total Donation Expenses	Amount		
	NT\$		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>
	<u>\$ 300,000</u>	<u>98</u>	<u>\$ 300,000</u>	<u>\$ 9,908</u>	<u>78</u>

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.

Patent Litigation

Note 31 has more information about patent litigation

Compensation of Directors, Supervisors and Management Personnel

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Salaries	\$ 140,216	\$ 166,422	\$ 5,496
Incentives	300,734	134,924	4,456
Special compensation	3	-	-
Bonus	<u>1,386,441</u>	<u>(Note)</u>	<u>(Note)</u>
	<u>\$1,827,394</u>	<u>\$ 301,346</u>	<u>\$ 9,952</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 the bonuses appropriated from the earnings of 2010, which were approved by the stockholders in their annual meeting in 2011.

28. PLEDGED ASSETS

As of December 31, 2010 and 2011, the Company had provided time deposits of NT\$95,688 thousand and NT\$68,700 thousand (US\$2,269 thousand), respectively, as collaterals for secured loans, as rental deposits and as a meeting of one of the requirements of the National Tax Administration of Northern Taiwan Province for the Company to get a certificate stating that it had no pending income tax.

29. COMMITMENTS AND CONTINGENCIES

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

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

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

30. SIGNIFICANT CONTRACTS

Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement term and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.

(Continued)

Contractor	Contract Term	Description
	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.	
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents in the agreement.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents in the agreement.	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.
Motorola, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents in the agreement. b. Any time when the Company is not using any of Motorola's intellectual property.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

(Concluded)

31. OTHER EVENTS

Lawsuit

- a. In April 2008, ICom GMBH & CO., KG (“ICom”) filed a multi-claim lawsuit against the Company with the District Court of Mannheim 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 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 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	\$ 2,611,457	29.13	\$ 3,143,462	30.28
EUR	744,761	38.92	498,383	39.19
GBP	95,774	45.19	54,254	46.73
RMB	698,286	4.42	1,344,825	4.77
Non-monetary items				
USD	11,150	29.13	89,493	30.28
Investments accounted for by the equity method				
USD	-	-	2,500	30.28
<u>Financial liabilities</u>				
Monetary items				
USD	2,929,408	29.13	3,372,400	30.28
EUR	756,858	38.92	583,741	39.19
GBP	112,468	45.19	53,624	46.73
RMB	383,542	4.42	1,463,205	4.77

32. SEGMENT DISCLOSURES

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

Selected financial information is as follows:

Geographical Areas

The Company's noncurrent assets (other than financial instruments, deferred income tax assets and post-employment benefit assets) located in an individual foreign country as of December 31, 2010 and 2011 and revenues from domestic and overseas customers for 2010 and 2011 were as follows:

	Noncurrent Assets			Revenues		
	Year Ended December 31			Year Ended December 31		
	2010	2011		2010	2011	
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
Taiwan	\$ 14,022,245	\$ 24,807,110	\$ 819,284	\$ 7,557,197	\$ 20,140,051	\$ 665,149
Country W	140,125	10,271,855	339,240	137,860,891	215,842,904	7,128,469
Country X	638,003	2,021,707	66,769	23,333,440	30,969,172	1,022,794
Country Y	260	893	31	18,451,758	20,495,340	676,883
Country Z	2,425,839	5,240,612	173,077	5,050,102	21,866,615	722,171
Others	544,364	11,023,509	364,065	86,507,856	156,480,691	5,167,961
	<u>\$ 17,770,836</u>	<u>\$ 53,365,686</u>	<u>\$ 1,762,466</u>	<u>\$ 278,761,244</u>	<u>\$ 465,794,773</u>	<u>\$ 15,383,427</u>

Major Customers

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

Customer	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
A	\$ 47,500,397	\$ 75,243,879	\$ 2,485,019
B	38,544,296	63,091,960	2,083,687
C	<u>51,646,672</u>	<u>47,541,529</u>	<u>1,570,115</u>
	<u>\$ 137,691,365</u>	<u>\$ 185,877,368</u>	<u>\$ 6,138,821</u>

33. DISCLOSURE OF THE PLAN FOR THE REQUIRED ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Company should disclose the following information on its adoption of the International Financial Reporting Standards (IFRSs).

- a. On May 14, 2009, the FSC announced the “Framework for the Adoption of International Financial Reporting Standards by the Companies in the ROC.” In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange (TWSE) or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidances translated by the ARDF and issued by the FSC. To comply with this framework, the Company has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is Mr. James Chen, the vice president. The main contents of the plan, schedule and status of execution as of December 31, 2011 were as follows:

Contents of Plan	Responsible Department	Status of Execution
Assessment phase: From January 1, 2010 to December 31, 2011		
• Make a plan to adopt the IFRSs and set up a project team	Finance and accounting	Completed
• Conduct phase I internal training for employees	Finance and accounting and talent management	Completed
• Compare and analyze the differences between the existing accounting policies and the accounting policies to be adopted under IFRSs	Finance and accounting	Completed
• Assess the adjustments of the existing accounting policies	Finance and accounting	Completed
• Assess the applicability of the IFRS 1 - “First-time Adoption of International Financial Reporting Standards”	Finance and accounting	Completed

(Continued)

Contents of Plan	Responsible Department	Status of Execution
<ul style="list-style-type: none"> Assess the adjustments of the related information technology system and internal control <p>Preparation phase: From January 1, 2011 to December 31, 2012</p>	Finance and accounting, internal audit and information technology	Completed
<ul style="list-style-type: none"> Determine how to adjust the existing accounting policies in accordance with IFRSs 	Finance and accounting	Completed
<ul style="list-style-type: none"> Determine how to apply to the IFRS 1 - "First-time Adoption of International Financial Reporting Standards" 	Finance and accounting	Completed
<ul style="list-style-type: none"> Adjust the related information technology system and internal control 	Finance and accounting, internal audit and information technology	In progress
<ul style="list-style-type: none"> Conduct phase II internal training for employees <p>Implementation Phase: From January 1, 2012 to December 31, 2013</p>	Finance and accounting and talent management	Completed
<ul style="list-style-type: none"> Test run the adjusted related information technology system 	Finance and accounting and information technology	In progress
<ul style="list-style-type: none"> Gather information to prepare the opening balance sheets and comparative financial statements in conformity with IFRSs 	Finance and accounting	In progress
<ul style="list-style-type: none"> Prepare financial statements in conformity with IFRSs 	Finance and accounting	In progress
(Concluded)		

- b. As of December 31, 2011, the Company had assessed the material differences, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

Accounting Issues	Description of Differences
Deferred income tax assets and liabilities of intergroup sales, classification of deferred income tax assets and liabilities and valuation allowance account.	1) Under ROC GAAP, deferred income tax assets or liabilities of intergroup sales are recognized for the change in tax basis using the seller's tax rates. However, under IFRSs, the buyer's tax rates are used instead.

(Continued)

Accounting Issues	Description of Differences
	<p>2) Under ROC GAAP, a deferred income tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred income tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent according to the expected reversal or realization date of the temporary difference. By contrast, under IFRSs, a deferred income tax asset or liability is always classified as noncurrent.</p> <p>3) Under ROC GAAP, deferred tax assets are recognized in full but are reduced by a valuation allowance account if there is evidence showing that a portion of or all the deferred tax assets will not be realized. However, under IFRSs, an entity recognizes deferred tax assets only if realization is “probable” and a valuation allowance account is not used.</p>
Actuarial gains and losses	Under ROC GAAP, the Company amortizes actuarial gains and losses using the corridor approach. However, under IFRSs, actuarial gains and losses may be recognized immediately as other comprehensive income (OCI).
Accumulated compensated absences	This issue is not addressed in existing ROC GAAP; thus, the Company has not recognized the expected cost of employee benefits in the form of accumulated compensated absences at the end of reporting periods. However, under IFRSs, when the employees render services that increase their entitlement to future compensated absences, an entity should recognize the expected cost of employee benefits at the end of reporting periods.

(Continued)

Accounting Issues	Description of Differences
Definition of cash and cash equivalents and reclassification	Under ROC GAAP, the term “cash” used in the financial statements includes cash on hand, demand deposits, check deposits, time deposits that are cancellable but without any loss of principal and negotiable certificates of deposit that are readily salable without any loss of principal. However, under IFRSs, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. An investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition.
Definition of provisions and reclassification	Under ROC GAAP, if an obligation is probable (i.e., likely to occur) and the amount could be reasonably estimated, it is a contingent liability and should be accounted for, but under which account is not clearly defined. However, under IFRSs, it defines “provisions” as obligations that are probable (i.e., more likely than not) and the amount could be reasonably estimated.
Goodwill arising on the acquisition of a foreign operation and any fair value adjustment.	This issue is not addressed in the ROC GAAP. However, under IFRSs, any goodwill and any fair value adjustment arising on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation. Thus, they should be expressed in the functional currency of the foreign operation and should be translated at the closing rate.
Changes in a parent’s ownership interest in a subsidiary	1) Not resulting in a loss of control: Under ROC GAAP, upon disposal of the investment in a subsidiary, irrespective of whether the changes result in a loss of control, the difference between the selling price and book value of the investment should be recognized as a disposal gain or loss. And if a subsidiary issues new shares and the parent company does not buy new shares proportionately, the parent’s ownership percentage and the interest in net assets of the investment will be changed. These changes should then be used to adjust the additional paid-in capital. By contrast, under IFRSs, the changes should be accounted for as equity transactions of the consolidated entity; thus, no gain or loss is reported.

(Continued)

Accounting Issues	Description of Differences
<p>Business combinations achieved in stages (step acquisition)</p>	<p>2) Result in a loss of control: Under ROC GAAP, when the long-term equity investment is sold, if there is a balance on additional paid-in capital or other equity adjustment items of the investment, an investor company should calculate its share so that the pro rata gains or losses from the disposal of the long-term investment can be accounted for. In addition, the carrying amount of any investment retained in the former subsidiary at the date when control is lost should be regarded as the new cost of the financial asset. However, under IFRSs, the parent company should account for all amounts recognized in other comprehensive income (OCI) in relation to that subsidiary on the same basis as would be required had the parent company had directly disposed of the related assets or liabilities. In addition, this applies to the entire amount recognized in OCI, irrespective of whether the parent company retains any interest in the former subsidiary. Further, the fair value of any investment retained in the former subsidiary at the date when control is lost should be recognized as the new fair value of the financial asset.</p> <p>Under ROC GAAP, no matter whether the acquirer has pre-acquisition controlling interests in an investee, at the acquisition date, the acquirer does not remeasure the pre-acquisition interest at fair value. However, under IFRSs: (1) When an acquirer does not have pre-acquisition controlling interests in an acquiree, the acquirer should remeasure on the effective combination date its previously held equity interest at fair value and recognize the resulting gain or loss, if any, in profit or loss or OCI, as appropriate. The amount recognized in OCI should be recognized on the same basis as would be required had the acquirer disposed directly of the previously held equity interest. (2) When the acquirer has pre-acquisition controlling interests in the investee, the acquisition transaction should be accounted for as an equity transaction with owners and no gain or loss is recognized.</p> <p style="text-align: right;">(Concluded)</p>

- c. The Company has prepared the above assessments in compliance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the International Accounting Standards Board (IASB) continues to issue or amend standards, and as the FSC may issue new rules governing the adoption of IFRSs by companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market. Actual accounting policies adopted under IFRSs in the future may differ from those contemplated during the assessments. New and revised standards, amendments or interpretations that have been issued by IASB and approved but are not yet effected by the FSC are as follows:

Standards or interpretations	Content	Effective Date by IASB
IFRSs (Amendments)	Improvements to 2010 IFRS	July 1, 2010 and January 1, 2011
IFRSs (Amendments)	Improvements to 2009 IFRS, which amends IAS 39 (see note below)	January 1, 2009 and January 1, 2010
IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	July 1, 2010
IFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	July 1, 2011
IFRS 7 (Amendment)	Disclosures - transfers of financial assets	July 1, 2011
IFRS 9 (Amendment)	Financial instruments	January 1, 2015
IAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	January 1, 2012
IAS 39 (Amendment)	Eligible hedged items (See note below)	Effective for a fiscal year ending on or after June 30, 2009

Note:

In the ROC, Taiwan Financial Reporting Standards (TFRS) is in compliance with the 2009 version of the IAS 39, but the amendment to IAS 39 that was issued by IASB in 2009 is not applicable temporarily.

The Company believes that the first-time and subsequent adoption of the foregoing new and revised standards, amendments or interpretations approved by FSC will not affect its financial statements, except for the following areas:

IFRS 9: Financial instruments

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets. In addition, financial assets that meet the following conditions are measured at amortized cost and assessed for impairment in subsequent periods:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms on the instrument state specific dates corresponding to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets are subsequently measured at fair value. However, upon initial recognition, the Company may choose to designate a financial asset as at FVTPL if such designation eliminates or significantly reduces a measurement or recognition inconsistency.

Investments in equity instruments are classified as at FVTPL, unless the Company designates an investment that is not held for trading as at FVTOCI on initial recognition. If investments in equity instruments are classified as at fair value through other comprehensive income (FVTOCI), except for dividends that are usually recognized in profit or loss in accordance with IAS 18 - Revenue, all gains and losses are recognised in OCI and will not be reclassified to profit or loss.

For financial liabilities, the main difference in classification and measurement refers to financial liabilities that are classified as at FVTPL. Under IFRS 9 - Financial Instruments, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. For financial liabilities previously classified as at FVTPL under IAS 39 - Financial Instruments: Recognition and Measurement, the amount of change in the fair value of the financial liability is recognized in profit or loss.

For its first-time adoption of IFRS 9 - Financial instruments, the Company expects that these items will be designated as at FVTOCI: (a) investments in equity instruments (not held for trading) that are initially classified as available-for-sale and measured at fair value at the end of each reporting period in accordance with IAS 39 - Financial Instruments: Recognition and Measurement; and (b) financial assets initially classified as financial assets carried at cost. In addition, the investment in mutual funds initially classified as available-for-sale will be reclassified to financial asset at FVTPL.