HTC Corporation and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2011 and 2012 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of March 31, 2011 and 2012, and the related consolidated statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with the Statement of Auditing Standards No. 36 - "Review of Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the order VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan as of November 15, 2007, and accounting principles generally accepted in the Republic of China.

In addition, the translation of the 2012 New Taiwan dollars amounts into U.S. dollars has been reviewed on the basis stated in Note 3 to the financial statements.

April 24, 2012

<u>*Notice to Readers*</u>

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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent accountants' review 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 independent accountants' review 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
MARCH 31, 2011 AND 2012
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

	2011	2012	
ASSETS	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 5)	$ 94,828,263	$ 79,591,273	$ 2,696,684
Available-for-sale financial assets - current (Notes 2 and 7)	442,557	737,392	24,984
Accounts receivable, net (Notes 2, 8 and 25)	61,757,184	52,325,059	1,772,859
Other current financial assets (Notes 9 and 25)	1,519,431	958,570	32,478
Inventories (Notes 2 and 10)	29,718,517	28,993,944	982,363
Prepayments (Note 11)	3,037,830	5,559,350	188,360
Deferred tax assets (Notes 2 and 22)	1,298,202	2,038,910	69,082
Other current assets	870,248	797,223	27,011
Total current assets	193,472,232	171,001,721	5,793,821
LONG-TERM INVESTMENTS			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	530	186,856	6,331
Held-to-maturity financial assets - noncurrent (Notes 2 and 12)	207,120	203,764	6,904
Financial assets carried at cost - noncurrent (Notes 2 and 13)	2,511,772	3,472,035	117,638
Investments accounted for by the equity method (Notes 2 and 14)	-	316,145	10,712
Total long-term investments	2,719,422	4,178,800	141,585
PROPERTIES (Notes 2, 15 and 25)			
Cost			
Land	5,844,955	7,616,056	258,045
Buildings and structures	5,443,676	6,016,688	203,855
Machinery and equipment	7,619,266	11,602,400	393,109
Molding equipment	172,632	-	-
Computer equipment	530,812	799,063	27,074
Transportation equipment	7,741	7,713	261
Furniture and fixtures	268,650	392,786	13,308
Leased assets	5,929	7,949	269
Leasehold improvements	283,669	531,284	18,001
Total cost	20,177,330	26,973,939	913,922
Less: Accumulated depreciation	(6,129,034)	(7,619,397)	(258,158)
Prepayments for construction-in-progress and equipment-in-transit	548,513	3,117,187	105,615
Properties, net	14,596,809	22,471,729	761,379
INTANGIBLE ASSETS (Notes 2 and 16)			
Patents	198,675	10,578,257	358,409
Goodwill	1,302,788	5,281,049	178,931
Deferred pension cost	416	342	12
Other	830,858	6,087,904	206,267
Total intangible assets	2,332,737	21,947,552	743,619
OTHER ASSETS			
Refundable deposits	133,937	199,327	6,753
Deferred charges (Note 2)	306,364	798,067	27,040
Deferred income tax assets (Notes 2 and 22)	3,012,281	3,506,342	118,801
Restricted assets (Notes 2 and 26)	93,347	38,853	1,316
Others (Notes 2 and 11)	5,011,509	10,199,672	345,582
Total other assets	8,557,438	14,742,261	499,492
TOTAL	$ 221,678,638	$ 234,342,063	$ 7,939,896

	2011	2012	
LIABILITIES AND STOCKHOLDERS' EQUITY	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	$ 143,651	$ 210,837	$ 7,144
Notes and accounts payable (Note 25)	65,214,983	67,612,962	2,290,839
Income tax payable (Notes 2 and 22)	9,616,219	10,438,543	353,675
Accrued expenses (Notes 17 and 25)	41,450,199	35,609,721	1,206,516
Payable for purchase of equipment	248,096	564,111	19,113
Long-term liabilities - current portion (Note 19)	16,250	-	-
Other current liabilities (Notes 2, 18 and 25)	15,138,824	17,204,960	582,932
Total current liabilities	131,828,222	131,641,134	4,460,219
LONG-TERM LIABILITIES			
Long-term bank loans, net of current portion (Note 19)	4,063	-	-
OTHER LIABILITIES			
Guarantee deposits received	16,417	43,014	1,457
Total liabilities	131,848,702	131,684,148	4,461,676
STOCKHOLDERS' EQUITY (Note 20)			
Capital stock - NT$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 817,653 thousand shares in 2011 and 852,052 thousand shares in 2012			
Common stock	8,176,532	8,520,521	288,689
Capital surplus			
Additional paid - issuance of shares in excess of par	10,777,623	14,809,608	501,774
Treasury stock transactions	-	1,730,458	58,631
Long-term equity investments	18,411	18,037	611
Merger	24,710	24,423	828
Expired stock options	-	37,068	1,256
Retained earnings			
Legal reserve	10,273,674	10,273,674	348,089
Special reserve	-	580,856	19,681
Accumulated earnings	67,709,756	80,229,507	2,718,308
Other equity			
Cumulative translation adjustments (Note 2)	(297,872)	(664,130)	(22,502)
Net loss not recognized as pension cost	(121)	(293)	(10)
Unrealized (loss) gain on financial instruments (Notes 2 and 24)	(284)	117,091	3,967
Treasury stock (Notes 2 and 21)	(6,852,493)	(14,065,490)	(476,562)
Equity attributable to stockholders of the parent	89,829,936	101,611,330	3,442,760
MINORITY INTEREST	-	1,046,585	35,460
Total stockholders' equity	89,829,936	102,657,915	3,478,220
TOTAL	$ 221,678,638	$ 234,342,063	$ 7,939,896

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2011 AND 2012
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2011	2012	
	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 25)	$ 104,156,600	$ 67,789,581	$ 2,296,823
COST OF REVENUES (Notes 10 and 25)	73,686,190	50,819,406	1,721,845
GROSS PROFIT	30,470,410	16,970,175	574,978
OPERATING EXPENSES (Note 25)			
Selling and marketing	8,821,201	6,724,037	227,821
General and administrative	1,225,016	1,714,817	58,101
Research and development	3,953,709	3,426,778	116,105
Total operating expenses	13,999,926	11,865,632	402,027
OPERATING INCOME	16,470,484	5,104,543	172,951
NONOPERATING INCOME AND GAINS			
Interest income	126,664	167,214	5,665
Exchange gain (Note 2)	557,855	448,604	15,199
Rental revenues	1,795	3,984	135
Other	48,162	84,019	2,847
Total nonoperating income and gains	734,476	703,821	23,846
NONOPERATING EXPENSES AND LOSSES			
Interest expense	2,442	320	11
Loss on equity-method investments (Notes 2 and 14)	-	4,470	151
Loss on disposal of properties	344	5	-
Valuation losses on financial instruments, net (Notes 2 and 6)	143,651	210,837	7,144
Other	9,369	36,401	1,233
Total nonoperating expenses and losses	155,806	252,033	8,539
INCOME BEFORE INCOME TAX	17,049,154	5,556,331	188,258
INCOME TAX (Notes 2 and 22)	(2,216,290)	(751,357)	(25,457)
NET INCOME	$ 14,832,864	$ 4,804,974	$ 162,801

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2011 AND 2012
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2011	2012	
	NT$	NT$	US$ (Note 3)
ATTRIBUTABLE TO			
Stockholders of the parent	$ 14,832,864	$ 4,467,192	$ 151,356
Minority interest	-	337,782	11,445
	$ 14,832,864	$ 4,804,974	$ 162,801

	2011		2012			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
EARNINGS PER SHARE (Note 23)						
Basic	$ 20.63	$ 18.36	$ 5.87	$ 0.20	$ 5.35	$ 0.18
Diluted	$ 20.56	$ 18.29	$ 5.86	$ 0.20	$ 5.35	$ 0.18

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2011 AND 2012
(In Thousands)
(Reviewed, Not Audited)

	2011	2012	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 14,832,864	$ 4,804,974	$ 162,801
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	338,707	503,279	17,052
Amortization	92,162	485,166	16,438
Amortization of premium on financial assets	826	833	28
Prepaid pension costs	(8,938)	(5,408)	(183)
Loss on equity-method investments	-	4,470	152
Loss on disposal of properties, net	344	5	-
Transfer of properties to expenses	594	11,879	402
Deferred income tax assets	(892,799)	376,465	12,755
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	629,556	467,705	15,846
Notes and accounts receivable	(21,380)	12,394,732	419,954
Other current financial assets	(735,891)	447,228	15,153
Inventories	(3,304,770)	(563,354)	(19,087)
Prepayments	(379,508)	1,515,881	51,361
Other current assets	(102,423)	258,251	8,750
Other assets - other	(2,359,590)	(1,481,315)	(50,189)
Notes and accounts payable	3,192,227	(9,655,331)	(327,139)
Income tax payable	2,806,578	(132,124)	(4,477)
Accrued expenses	7,981,281	(10,561,414)	(357,838)
Other current liabilities	2,111,534	(309,446)	(10,485)
Net cash provided by (used in) operating activities	24,181,374	(1,437,524)	(48,706)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in financial assets carried at cost	(1,478,088)	(209,546)	(7,100)
Acquisition of a subsidiary	(1,373,303)	(55,252)	(1,872)
Purchase of properties	(1,014,241)	(1,828,344)	(61,947)
Proceeds of the sale of properties	555	7,151	242
Decrease (increase) in refundable deposits	16,923	(14,021)	(475)
Increase in deferred charges	(81,058)	(87,916)	(2,978)
Decrease in restricted assets	2,341	29,847	1,011
Increase in intangible assets	-	(19,953)	(676)
Loss of a subsidiary	-	(501,425)	(16,989)
Net cash used in investing activities	(3,926,871)	(2,679,459)	(90,784)

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2011 AND 2012
(In Thousands)
(Reviewed, Not Audited)

	2011	2012	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in long-term bank loans	$ (4,063)	$ -	$ -
Increase in guarantee deposits received	2,458	68	2
Purchase of treasury stock	-	(3,700,346)	(125,374)
Increase in minority interest	-	10,797	366
Net cash used in financing activities	(1,605)	(3,689,481)	(125,006)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	112,504	(103,771)	(3,516)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,365,402	(7,910,235)	(268,012)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	74,462,861	87,501,508	2,964,696
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 94,828,263	$ 79,591,273	$ 2,696,684
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest (net of amounts capitalized)	$ 3,660	$ 320	$ 11
Income tax	$ 302,287	$ 507,016	$ 17,179
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of assets leased to others to properties	$ 50,828	$ -	$ -
PURCHASE OF PROPERTIES			
Cost of properties purchased	$ 827,648	$ 1,580,215	$ 53,540
Decrease in payable for purchase of equipment	193,880	248,129	8,407
Increase in lease payable	(7,287)	-	-
Cash paid for purchase of properties	$ 1,014,241	$ 1,828,344	$ 61,947
ACQUISITION OF A SUBSIDIARY			
Net cash outflow on the acquisition of subsidiaries	$ 1,374,772	$ 262,303	$ 8,887
Increase in other payable	(1,469)	(207,051)	(7,015)
Cash paid for acquisition of subsidiaries	$ 1,373,303	$ 55,252	$ 1,872

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

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2011 AND 2012
(In Thousands, Unless Stated Otherwise)
(Reviewed, Not Audited)

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 12,943 and 16,746 employees as of March 31, 2011 and 2012, 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 March 31, 2011 and 2012 were as follows:

Investor	Investee	Company Type/ Main Businesses	% of Ownership 2011	% of Ownership 2012	Remark on Investee
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	100.00	100.00	Incorporated in August 2000
	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. In March 2012, investment type change to joint venture and HTC lost significant influence.

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Investor	Investee	Company Type/ Main Businesses	% of Ownership 2011	% of Ownership 2012	Remark on Investee
HTC Corporation	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	-	100.00	Incorporated in August 2011
	FunStream Corporation	Design, research and development of three-D technology	-	100.00	Investment received in February 2012
H.T.C. (B.V.I.) Corp.	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
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer (H.K.) Limited	Marketing, repair and after-sales services	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 Malaysia Sdn. Bhd.	〃	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 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
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Repair and after-sales services	100.00	100.00	Incorporated in July 2007 and was acquired from an affiliate in December 2009
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2007; investment received in July 2008; and was acquired from a direct subsidiary of HTC in February 2010 for Company reorganization
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	Incorporated in October 2009
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	Incorporated in January 2008 and was acquired from an indirect subsidiary of HTC in February 2010 for Company reorganization

(Continued)

Investor	Investee	Company Type/ Main Businesses	% of Ownership 2011	% of Ownership 2012	Remark on Investee
HTC Holding Cooperatief U.A.	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
	HTC Belgium BVBA/SPRL	〃	100.00	100.00	Incorporated in October 2006 and was acquired from an indirect subsidiary of HTC in March 2010 for Company reorganization
	HTC NIPPON Corporation	〃	100.00	100.00	Incorporated in March 2006, and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization
	HTC FRANCE CORPORATION	〃	100.00	100.00	Incorporated in April 2010
	HTC South Eastern Europe Limited Liability Company	〃	99.33	99.33	Incorporated in June 2010
	HTC 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	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 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 2011	% of Ownership 2012	Remark on Investee
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	100.00	Investment received in January 2011
	Saffron Digital Inc.	〃	100.00	100.00	Investment received in January 2011

(Concluded)

In January 2011, HTC wholly acquired the shares issued by Saffron Digital Ltd. In January 2012, HTC estimated, based on the "unit purchase agreement", an additional consideration of NT$217,282 thousand (US$7,362 thousand) with the founding members of Beats Electronics, LLC. In February 2012, HTC acquired FunStream Corporation. In March 2012, HTC changed Huada Digital Corporation investment type to joint venture and accounted for this investment by the equity method. The net assets of Saffron Media Group Ltd and FunStream Corporation were as follows:

	Saffron Media Group Ltd	FunStream Corporation	
	NT$	NT$	US$ (Note 3)
Cash on hand and in banks	$ 18,945	$ 69	$ 2
Other current assets	161,622	4	-
Property	8,629	-	-
Other assets	1,130	-	-
Current liabilities	(132,910)	-	-
Net assets	$ 57,416	$ 73	$ 2
Cash consideration	$ 1,393,717	$ 45,090	$ 1,527
Cash on hand and in banks	(18,945)	(69)	(2)
Net cash outflow on the acquisition of subsidiaries	$ 1,374,772	$ 45,021	$ 1,525

Foreign Currencies

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

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

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

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

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

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

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity; and

b. Recognized in profit and loss if the changes in fair value are recognized in profit or loss.

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

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

Accounting Estimates

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

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

Current/Noncurrent Assets and Liabilities

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; bonds - at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

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 computer software costs, deferred license fees and the right to the use of the land. Computer software are amortized on a straight-line basis over 3 years, deferred license fees, over 5 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.

Under Statement of Financial Accounting Standards (SFAS) No. 23 - "Interim Financial Reporting," the Company does not have to apply the requirement stated in SFAS No. 18 ("Accounting for Pensions") of remeasuring the minimum pension liability and pension cost of the current interim period.

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 2011 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the three months ended March 31, 2012.

3. TRANSLATION INTO U.S. DOLLARS

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2012 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$29.5145 to US$1.00 quoted by Reuters on March 31, 2012. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. ACCOUNTING CHANGES

Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions includes (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. The accounting change had no material effect on the Company's consolidated financial statements as of and for the three months ended March 31, 2012.

Operating Segments

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

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Cash on hand	$ 6,103	$ 18,861	$ 639
Cash in banks	20,163,477	39,541,782	1,339,741
Time deposits	74,658,683	40,030,630	1,356,304
	$ 94,828,263	$ 79,591,273	$ 2,696,684

On time deposits, interest rates ranged from 0.04% to 1.175% and from 0.33% to 1.345%, as of March 31, 2011 and 2012, respectively.

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

Financial assets and liabilities at fair value through profit or loss as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Derivatives - financial liabilities			
Forward exchange contracts	$ 143,651	$ 210,837	$ 7,144

The Company had derivative transactions during the three months ended March 31, 2011 and 2012 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 for the three months ended March 31, 2011 and 2012. Outstanding forward exchange contracts as of March 31, 2011 and 2012 were as follows:

	2011			
	Buy/Sell	**Currency**	**Settlement Period/Date**	**Contract Amount**
Forward exchange contracts	Sell	EUR/USD	2011.04.13-2011.06.01	EUR 234,000
Forward exchange contracts	Sell	EUR/TWD	2011.04.29	EUR 10,000
Forward exchange contracts	Sell	GBP/USD	2011.05.25-2011.06.01	GBP 23,000
Forward exchange contracts	Sell	USD/TWD	2011.04.06	USD 43,000
Forward exchange contracts	Buy	USD/JPY	2011.04.13-2011.06.29	USD 11,252

	2012			
	Buy/Sell	**Currency**	**Settlement Period/Date**	**Contract Amount**
Forward exchange contracts	Sell	EUR/USD	2012.04.11-2012.05.30	EUR 307,000
Forward exchange contracts	Sell	GBP/USD	2012.04.11-2012.04.25	GBP 14,300
Forward exchange contracts	Sell	USD/TWD	2012.04.03-2012.04.20	USD 20,000
Forward exchange contracts	Buy	USD/RMB	2012.04.11-2012.05.16	USD 94,000
Forward exchange contracts	Buy	USD/JPY	2012.06.27	USD 1,816

Net loss on derivative financial instruments for the three months ended March 31, 2011 was NT$425,463 thousand, including realized settlement loss of NT$281,812 thousand and valuation loss of NT$143,651 thousand.

Net loss on derivative financial instruments for the three months ended March 31, 2012 was NT$169,070 thousand (US$5,728 thousand), including realized settlement gain of NT$41,767 thousand (US$1,416 thousand) and valuation loss of NT$210,837 thousand (US$7,144 thousand). Note 24 has more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	**NT$**	**US$ (Note 3)**
Mutual funds	$ 442,557	$ 737,392	$ 24,984
Quoted stocks	530	186,856	6,331
Less: Current portion	(442,557)	(737,392)	(24,984)
	$ 530	$ 186,856	$ 6,331

8. ACCOUNTS RECEIVABLE

Accounts receivable as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Accounts receivable	$ 62,764,274	$ 53,056,732	$ 1,797,650
Accounts receivable from related parties	1,401	1,328,406	45,008
Less: Allowance for doubtful accounts	(1,008,491)	(2,060,079)	(69,799)
	$ 61,757,184	$ 52,325,059	$ 1,772,859

9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Other receivables	$ 1,467,671	$ 853,160	$ 28,907
Agency payments	27,009	77,174	2,615
Interest receivables	22,450	24,003	813
Others	2,301	4,233	143
	$ 1,519,431	$ 958,570	$ 32,478

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

10. INVENTORIES

Inventories as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Finished goods	$ 821,601	$ 2,659,048	$ 90,093
Work-in-process	9,563,784	10,126,001	343,086
Raw materials	17,887,531	15,898,949	538,683
Inventory in transit	1,445,601	309,946	10,501
	$ 29,718,517	$ 28,993,944	$ 982,363

As of March 31, 2011 and 2012, the allowance for inventory devaluation was NT$3,896,509 thousand and NT$$4,306,164 thousand (US$145,900 thousand), respectively.

The write-down of inventories to their net realizable value amounted to NT$359,448 thousand and NT$73,993 thousand (US$2,507 thousand) and was recognized as cost of sales for the three months ended March 31, 2011 and 2012, respectively.

11. PREPAYMENTS

Prepayments as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Royalty	$ 1,964,832	$ 4,288,275	$ 145,294
Software and hardware maintenance	126,339	432,633	14,658
Prepayments to suppliers	247,808	322,045	10,911
Net input VAT	334,007	253,509	8,589
Molding equipment	7,852	73,710	2,498
Marketing	249,843	69,773	2,364
Rent	22,418	24,281	823
Insurance	11,710	12,669	429
Others	73,021	82,455	2,794
	$ 3,037,830	$ 5,559,350	$ 188,360

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of March 31, 2011 and 2012, the noncurrent prepayments of NT$3,250,397 thousand and NT$7,044,060 thousand (US$238,664 thousand), respectively, were classified as other assets (Note 28 has more information).

Prepayments to suppliers were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of March 31, 2011 and 2012, the noncurrent prepayments of NT$1,593,348 thousand and NT$2,933,461 thousand (US$99,391 thousand), respectively, were been classified as other assets.

Prepayments for others were primarily for travel and service expenses.

12. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Corporate bonds	$ 207,120	$ 203,764	$ 6,904

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

13. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of March 31, 2011 and 2012 consisted of unquoted stocks of the following companies:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$ 500,000	$ 500,000	$ 16,941
Answer Online, Inc.	1,192	1,192	40
BandRich Inc.	15,861	15,861	537
SoundHound Inc.	58,813	65,738	2,227
GSUO Inc.	147,033	236,116	8,000
Felicis Ventures II LP	-	81,165	2,750
WI Harper Fund VII	-	66,408	2,250
NETQIN MOBILE Inc.	73,516	-	-
Luminous Optical Technology Co., Ltd.	183,000	183,000	6,200
OnLive, Inc.	1,176,260	1,180,580	40,000
KKBOX Inc.	294,065	295,145	10,000
TransLink Capital Partners II, L.P.	-	97,398	3,300
Shanghai F-road Commercial Co., Ltd.	-	162,472	5,505
Primavera Capital (Cayman) Fund L.L.P.	-	588,152	19,928
Prepayments for long-term investments	63,224	-	-
	2,512,964	3,473,227	117,678
Less: Accumulated impairment loss	(1,192)	(1,192)	(40)
	$ 2,511,772	$ 3,472,035	$ 117,638

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

In March 2004, HTC merged with IA Style, Inc. and acquired 1.82% equity interest in Answer Online, Inc. as a result of the merger. In 2010, HTC 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, HTC acquired 92% equity interest in BandRich Inc. for NT$135,000 thousand and accounted for this investment by the equity method. After that, HTC's ownership percentage declined from 92% to 18.08% and lost its significant influence on this investee. When HTC's ownership percentage changed in July 2010, HTC transferred this investment to "financial assets carried at cost" using book value of NT$15,861 thousand.

In 2009, through H.T.C. (B.V.I.) Corp. (HTC BVI), HTC invested US$2,000 thousand in SoundHound Inc. Again through HTC BVI, HTC increased this investment by US$227 thousand in 2011. As of March 31, 2012, HTC's investment in SoundHound Inc. had amounted to US$2,227 thousand (NT$65,738 thousand), and the ownership percentage was 4.50%.

In 2010, through HTC BVI, HTC invested US$5,000 thousand in GSUO Inc. Again through HTC BVI, HTC increased this investment by US$3,000 thousand in 2011. As of March 31, 2012, HTC's investment in GSUO Inc. had amounted to US$8,000 thousand (NT$236,116 thousand), and the ownership percentage was 11.15%.

In 2010, through HTC BVI, HTC invested US$750 thousand in Felicis Ventures II LP. Again through HTC BVI, HTC increased this investment by US$1,750 thousand and US$250 thousand in 2011 and 2012 respectively. As of March 31, 2012, HTC's investment in Felicis Ventures II LP had amounted to US$2,750 thousand (NT$81,165 thousand).

In 2010, through HTC BVI, HTC invested US$900 thousand in WI Harper Fund VII. Again through HTC BVI, HTC increased this investment by US$675 thousand and US$675 thousand in 2011 and 2012 respectively. As of March 31, 2012, HTC's investment had amounted to US$2,250 thousand (NT$66,408 thousand).

In December 2010, through HTC BVI, HTC acquired 1.60% equity interest in NETQIN MOBILE Inc. for US$2,500 thousand. In January 2012, because the fair value could be reliably measured, HTC transferred this investment with holding purpose to "available for sale financial assets - noncurrent".

In December 2010, through HTC Investment Corporation and HTC I Investment Corporation, HTC acquired 10.02% equity interest in Luminous Optical Technology Co., Ltd. for NT$183,000 thousand.

In February 2011, through HTC BVI, HTC acquired 3.79% equity interest in OnLive, Inc. for US$40,000 thousand (NT$1,180,580 thousand).

In March 2011, through HTC BVI, HTC acquired 11.11% equity interest in KKBOX Inc. for US$10,000 thousand (NT$295,145 thousand).

In June 2011, through HTC BVI, HTC invested US$3,300 thousand (NT$97,398 thousand) in TransLink Capital Partners II, L.P.

In May 2011, through HTC HK Limited, HTC acquired 17.70% equity interest in Shanghai F-road Commercial Co., Ltd. for US$5,500 thousand (NT$162,472 thousand).

In August 2011, through HTC Investment One (BVI) Corporation (HTC One BVI), HTC invested US$14,141 thousand in Primavera Capital (Cayman) Fund L.L.P. Again through HTC One BVI, HTC increased this investment by US$5,787 thousand in 2012. As of March 31, 2012, HTC's investment had amounted to US$19,928 thousand (NT$588,152 thousand).

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 March 31, 2011 and 2012 were as follows:

	2011		2012				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Huada Digital Corporation	$ -		$ 250,000	$ 8,470	$ 250,778	$ 8,497	50.00
SYNCTV Corporation	-		76,214	2,500	65,367	2,215	20.00
	$ -		$ 326,214	$10,970	$ 316,145	$10,712	

In December 2009, HTC acquired 100% equity interest in Huada Digital Corporation ("Huada") for NT$245,000 thousand and accounted for this investment by the equity method. In September 2011, HTC increased this investment by NT$5,000 thousand. As of March 31, 2012, HTC's investment in Huada had amounted to NT$250,000 thousand (US$8,470 thousand). In September 2011, the Fair Trade Commission Executive Yuan, R.O.C. (Taiwan) approved an investment by Chunghwa Telecom Co., Ltd. (CHT) in Huada and the registration of this investment was completed in October 2011. After CHT's investment, HTC's ownership percentage declined from 100% to 50%. In March 2012, Huada held a stockholders' meeting and re-elected its directors and supervisors. As a result, the investment type was changed to joint venture and HTC accounted for this investment by the equity method.

In September 2011, through HTC America Holding Inc., HTC acquired 20% equity interest in SYNCTV Corporation (SYNCTV) for US$2,500 thousand and accounted for this investment by the equity method.

On its equity-method investments, the Company had a gain of NT$89 thousand (US$3 thousand) on Huada and a loss of NT$4,559 thousand (US$154 thousand) on SYNCTV for the three months ended March 31, 2012.

15. PROPERTIES

Properties as of March 31, 2011 and 2012 were as follows:

	2011	2012			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$ 5,844,955	$ 7,616,056	$ -	$ 7,616,056	$ 258,045
Buildings and structures	4,576,011	6,016,688	1,056,986	4,959,702	168,043
Machinery and equipment	3,168,410	11,602,400	5,742,497	5,859,903	198,543
Computer equipment	192,402	799,063	444,273	354,790	12,021
Transportation equipment	4,782	7,713	4,061	3,652	124
Furniture and fixtures	91,279	392,786	219,877	172,909	5,858
Leased assets	1,099	7,949	6,080	1,869	63
Leasehold improvements	169,358	531,284	145,623	385,661	13,067
Prepayments for construction-in-progress and equipment-in-transit	548,513	3,117,187	-	3,117,187	105,615
	$ 14,596,809	$ 30,091,126	$ 7,619,397	$ 22,471,729	$ 761,379

In April 2011, the Company bought land adjacent to its Taoyuan plant for NT$1,770,000 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 the three months ended March 31, 2011 and 2012, respectively.

16. INTANGIBLE ASSETS

Intangible assets as of March 31, 2011 and 2012 were as follows:

	Three months ended March 31, 2011				
	Patents	Goodwill	Deferred Pension Cost	Other	Total
	NT$	NT$	NT$	NT$	NT$
Cost					
Balance, beginning of period	$ 220,943	$ 569,311	$ 416	$ 228,850	$ 1,019,520
Additions					
The difference between the cost of investment and the Company's share in investees' net assets	-	732,450	-	603,852	1,336,302
Translation adjustment	-	73,213	-	58,651	131,864
Balance, end of period	220,943	1,374,974	416	891,353	2,487,686
Accumulated amortization					
Balance, beginning of period	12,362	-	-	-	12,362
Amortization	9,906	-	-	58,503	68,409
Translation adjustment	-	-	-	1,992	1,992
Balance, end of period	22,268	-	-	60,495	82,763
Accumulated impairment losses					
Balance, beginning of period	-	71,508	-	-	71,508
Impairment losses	-	-	-	-	-
Translation adjustment	-	678	-	-	678
Balance, end of period	-	72,186	-	-	72,186
Net book value, end of period	$ 198,675	$ 1,302,788	$ 416	$ 830,858	$ 2,332,737

	Three months ended March 31, 2012					
	Patents	Goodwill	Deferred Pension Cost	Other	Total	
	NT$	NT$	NT$	NT$	NT$	US$(Note 3)
Cost						
Balance, beginning of period	$ 11,608,540	$ 10,905,878	$ 342	$ 911,962	$ 23,426,722	$ 793,736
Additions						
Acquisition	-	-	-	19,953	19,953	676
The difference between the cost of investment and the Company's share in investees' net assets	-	286,965	-	-	286,965	9,723
Reclassification	-	(5,717,960)	-	5,717,960	-	-
Translation adjustment	(230,313)	(102,876)	-	(141,974)	(475,163)	(16,099)
Balance, end of period	11,378,227	5,372,007	342	6,507,901	23,258,477	788,036
Accumulated amortization						
Balance, beginning period	456,442	-	-	316,178	772,620	26,178
Amortization	346,932	-	-	102,175	449,107	15,217
Translation adjustment	(3,404)	-	-	1,644	(1,760)	(60)
Balance, end of period	799,970	-	-	419,997	1,219,967	41,335
Accumulated impairment losses						
Balance, beginning period	-	93,314	-	-	93,314	3,162
Impairment losses	-	-	-	-	-	-
Translation adjustment	-	(2,356)	-	-	(2,356)	(80)
Balance, end of period	-	90,958	-	-	90,958	3,082
Net book value, end of period	$ 10,578,257	$ 5,281,049	$ 342	$ 6,087,904	$ 21,947,552	$ 743,619

17. ACCRUED EXPENSES

Accrued expenses as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Marketing	$ 23,209,756	$ 19,915,310	$ 674,764
Employees' bonus	11,677,761	7,688,168	260,488
Salaries and bonuses	2,009,740	3,033,600	102,783
Research materials	860,558	1,831,217	62,045
Services	1,661,523	1,260,097	42,694
Import, export and freight	1,041,545	756,251	25,623
Donation	332,800	292,800	9,920
Insurance	148,077	210,875	7,145
Repairs and maintenance	82,545	150,311	5,093
Meals and welfare	159,864	138,962	4,708
Pension cost	80,317	132,322	4,483
Travel	58,310	58,739	1,990
Others	127,403	141,069	4,780
	$ 41,450,199	$ 35,609,721	$ 1,206,516

The employee bonus for three months ended March 31, 2011 and 2012 should be appropriated at 18% and 8.4%, respectively, of net income before deducting employee bonus expenses. Accrued bonus as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Accrued bonus to employees for current year	$ 3,186,057	$ 449,531	$ 15,231
Accrued bonus to employees for prior years	8,491,704	7,238,637	245,257
	$ 11,677,761	$ 7,688,168	$ 260,488

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 March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Warranty provisions	$ 11,473,409	$ 12,791,601	$ 433,401
Provisions for contingent loss on purchase orders	2,233,752	2,087,892	70,741
Other payable	152,381	838,161	28,398
Agency receipts	395,554	334,966	11,349
Advance receipts	448,672	299,492	10,147
Advance revenues	-	140,941	4,775
Others	435,056	711,907	24,121
	$ 15,138,824	$ 17,204,960	$ 582,932

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, agreed installments payable to the original stockholders of subsidiaries and agency receipts for staff sales.

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 March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Secured loans (Note 26)			
NT$65,000 thousand, repayable from July 2009 in 16 quarterly installments; 1% annual interest; fully paid off in April 2011, before its maturity date	$ 20,313	$ -	$ -
Less: Current portion	(16,250)	-	-
	$ 4,063	$ -	$ -

20. STOCKHOLDERS' EQUITY

Capital Stock

HTC's outstanding common stock as of January 1, 2011 amounted to NT$8,176,532 thousand, divided into 817,653 thousand common shares at NT$10.00 par value. In June 2011, the stockholders approved the transfer of retained earnings of NT$403,934 thousand and employee bonuses of NT$40,055 thousand to capital stock. Also, in December 2011, HTC retired 10,000 thousand treasury shares amounting to NT$100,000 thousand. As a result, the amount of HTC's outstanding common stock as of March 31, 2012 increased to NT$8,520,521 thousand (US$288,689 thousand), divided into 852,052 thousand common shares at NT$10.00 (US$0.34) par value.

Global Depositary Receipts

HTC issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts (GDRs). For this GDR issuance, HTC'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 HTC. 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 HTC to redeem the GDRs to get HTC's common shares. As of March 31, 2012, there were 6,708.9 thousand units of GDRs redeemed, representing 26,835.6 thousand common shares, and the outstanding GDRs represented 9,224.9 thousand common shares or 1.11% of HTC's common shares.

Capital Surplus

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

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

The additional paid-in capital was NT$10,777,623 thousand as of January 1, 2011. In June 2011, the bonus to employees of NT$8,491,704 thousand for 2010 was approved in the stockholders' meeting. Of the approved bonus, NT$4,245,851 thousand was in the form of common stock, consisting of 4,006 thousand common shares at their fair value, which were distributed in 2011. The difference between par value and fair value of NT$4,205,796 thousand was accounted for as additional paid-in capital in 2011. In December 2011, the retirement of treasury stock caused a decrease of NT$173,811 thousand in additional paid-in capital. As a result, the additional paid-in capital as of March 31, 2012 was NT$14,809,608 thousand (US$501,774 thousand).

Treasury stock transactions and expired stock options

In June 2011, HTC resolved to transfer treasury shares to employees. In 2011, the number of shares for transfer to employees was 6,000 thousand, with 5,875 thousand shares exercised. Based on the fair value at the grant date, NT$1,750,767 thousand was accounted for as capital surplus - treasury stock transactions, and NT$37,503 thousand for the unexercised 125 thousand shares was accounted for as capital surplus - expired stock options. Also, in December 2011, the retirement of treasury stock caused decreases in treasury stock transactions and expired stock options of NT$20,309 thousand and NT$435 thousand, respectively. As a result, capital surplus from treasury stock transactions and expired stock options as of March 31, 2012 were NT$1,730,458 thousand (US$58,631 thousand) and NT$37,068 thousand (US$1,256 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:

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

Long-term equity investments

As of January 1, 2011, the capital surplus from long-term equity-method investments was NT$18,411 thousand. When HTC did not subscribe for the new shares issued by an equity-method investee, Huada Digital Corporation, in September 2011, HTC's total investment carrying value and capital surplus decreased by NT$374 thousand each in 2011. As a result, the capital surplus from long-term equity-method investments as of March 31, 2012 was NT$18,037 thousand (US$611 thousand).

Merger

The additional paid-in capital from a merger was NT$24,710 thousand as of January 1, 2011. In December 2011, the retirement of treasury stock caused a decrease of NT$287 thousand in additional paid-in capital from a merger. As a result, the additional paid-in capital from a merger as of March 31, 2012 was NT$24,423 thousand (US$828 thousand).

Appropriation of Retained Earnings and Dividend Policy

Based on the Company Law of the ROC and HTC's Articles of Incorporation, if HTC has earnings after the annual final accounting, it shall be allocated in the following order:

a. To pay taxes.

b. To cover accumulated losses, if any.

c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of HTC's authorized capital.

d. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above subparagraphs 1 to 3.

e. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above subparagraphs 1 to 3, or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include employees serving with affiliates who meet specific requirements. Such specific requirements shall be prescribed by the board of directors.

f. For any remainder, the board of directors shall propose allocation ratios based on the dividend policy set forth in HTC's Article and propose them at the shareholders' meeting.

Legal reserve shall be appropriated until it has reached HTC'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 HTC'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$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.

The employee bonus for three months ended March 31, 2011 and 2012 should be appropriated at 18% and 8.4%, respectively, of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

As of April 24, 2012, the date of the accompanying independent auditors' report, HTC's board of directors proposed the appropriation of the 2011 earnings and planned to distribute cash dividends of NT$40 (US$1.36) per share. The appropriation had not been approved by the shareholders' meeting. Information on earnings appropriation can be accessed on the Market Observation Post System website.

21. TREASURY STOCK

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

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

On December 20, 2011, HTC's board of directors passed a resolution to buy back 10,000 thousand of its shares from the open market between December 20, 2011 and February 19, 2012, with the repurchase price ranged from NT$445 (US$15) to NT$650 (US$22) per share. If HTC's share price becomes lower than this price range, HTC planned to continue to buy back its shares. HTC bought back 6,914 thousand shares for NT$3,750,056 thousand (US$127,058 thousand) during the repurchase period (bought back 100 thousand shares in 2011 and 6,814 thousand shares in 2012). Other treasury stock information for the three months ended 31, 2011 and 2012 was as follows:

(In Thousands of Shares)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
Three months ended March 31, 2011				
For transferring shares to the Company's employees	9,786	-	-	9,786
Three months ended March 31, 2012				
For transferring shares to the Company's employees	14,011	6,814	-	20,825

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of HTC'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, HTC should not pledge its treasury shares nor exercise voting rights.

22. 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 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 March 31, 2012)	2012.01.01-2016.12.31

Provision for income tax expense (benefit) for the three months ended March 31, 2011 and 2012, income tax payable, income tax receivables and deferred tax assets (liabilities) as of March 31, 2011 and 2012 were as follows:

	2011			
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT$	NT$	NT$	NT$
HTC Corporation	$ 1,834,521	$ 9,055,178	$ -	$ 4,159,668
Communication Global Certification Inc.	1,085	2,295	-	2,350
High Tech Computer Asia Pacific Pte. Ltd.	4,913	5,201	-	37
HTC Investment Corporation	31	-	207	-
HTC I Investment Corporation	30	42	-	-
Huada Digital Corporation	48	44	-	-
Exedea Inc.	658	-	137	-
High Tech Computer (H.K.) Limited	838	1,482	-	-
HTC (Australia and New Zealand) Pty. Ltd.	2,535	-	2,025	(1,243)
HTC India Private Limited	1,280	14,642	-	-
HTC (Thailand) Limited	551	1,268	-	-
HTC Malaysia Sdn. Bhd.	389	-	437	274
HTC Innovation Limited	564	59	-	-
HTC Communication Co., Ltd.	(30,249)	15,037	-	126,101
HTC HK, Limited	-	54	-	-
HTC Corporation (Shanghai WGQ)	356	654	-	-
HTC Electronics (Shanghai) Co., Ltd.	31,059	85,196	-	50,087
HTC Netherlands B.V.	380	1,406	-	-
HTC EUROPE CO., LTD.	39,903	125,599	-	9,044
HTC BRASIL	229	-	341	2,688
HTC Belgium BAVA/SPRL	208	11,274	-	-
HTC NIPPON Corporation	1,730	921	-	-
HTC FRANCE CORPORATION	665	3,951	-	(84,389)
HTC South Eastern Europe Limited liability Company	175	630	-	-
HTC Nordic ApS.	1,527	1,820	-	(59)
HTC Italia SRL	643	-	712	-
HTC Germany GmbH.	2,052	1,370	-	-
HTC Iberia S.L.	1,377	1,824	-	-
HTC Poland sp. z o.o.	16	1,358	-	2,130
ABAXIA SAS	-	-	7,286	-
HTC America Inc.	313,676	256,607	-	28,051
One & Company Design, Inc.	1,537	-	4,326	2,353
HTC America Innovation Inc.	3,447	18,990	-	13,391
HTC BLR	116	126	-	-
Saffron Digital Inc.	-	9,191	-	-
	$ 2,216,290	$ 9,616,219	$ 15,471	$ 4,310,483

	2012							
	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	$ 430,625	$ 14,590	$ 9,745,197	$ 330,183	$ -	$ -	$ 4,790,469	$ 162,309
Communication Global Certification Inc.	7,985	270	14,833	503	-	-	1,677	57
High Tech Computer Asia Pacific Pte. Ltd.	2,148	73	12,736	431	-	-	38	1
HTC Investment Corporation	79	3	58	2	-	-	-	-
HTC I Investment Corporation	51	2	-	-	12	-	-	-
Exedea Inc.	-	-	-	-	148	5	-	-
HTC (Australia and New Zealand) Pty. Ltd.	2,568	87	15,536	526	-	-	315	11
PT. High Tech Computer Indonesia	451	15	672	23	-	-	-	-
HTC (Thailand) Limited	626	21	2,909	99	-	-	-	-
HTC India Private Limited	2,481	84	1,573	53	-	-	-	-
HTC Malaysia Sdn. Bhd.	417	14	131	4	-	-	304	10
HTC Innovation Limited	(627)	(21)	48	2	-	-	-	-
HTC Communication Co., Ltd.	18,466	626	459,610	15,572	-	-	656,997	22,260
HTC HK, Limited	763	26	5,523	187	-	-	-	-
HTC Corporation (Shanghai WGQ)	849	29	2,146	73	-	-	-	-
HTC Electronics (Shanghai) Co., Ltd.	2,412	82	36,505	1,237	-	-	50,263	1,703
HTC Netherlands B.V.	268	9	1,908	65	-	-	-	-
HTC EUROPE CO., LTD.	17,905	607	104,857	3,553	-	-	9,556	324
HTC BRASIL	1,141	39	-	-	541	18	1,569	53
HTC Belgium BAVA/SPRL	259	9	6,237	211	-	-	-	-
HTC NIPPON Corporation	1,628	55	1,415	48	-	-	-	-
HTC FRANCE CORPORATION	142	5	323	11	-	-	-	-
HTC South Eastern Europe Limited liability Company	274	9	1,111	38	-	-	-	-
HTC Nordic ApS.	645	22	813	28	-	-	(80)	(3)
HTC Italia SRL	391	13	-	-	-	-	-	-
HTC Germany GmbH.	884	30	5,183	176	-	-	-	-
HTC Iberia S.L.	324	11	3,658	124	-	-	-	-
HTC Poland sp. z o.o.	1,011	34	-	-	-	-	895	31
HTC Communication Canada, Ltd.	368	12	458	15	-	-	-	-
HTC Norway AS.	60	2	105	4	-	-	-	-
HTC Communication Sweden AB	97	3	59	2	-	-	-	-
HTC America Holding Inc.	135,682	4,597	-	-	-	-	(114,324)	(3,873)
ABAXIA SAS	1,234	42	-	-	-	-	-	-
HTC America Inc.	71,862	2,435	-	-	165,206	5,598	83,260	2,821
One & Company Design, Inc.	3,236	109	-	-	7,453	253	18,624	631
HTC America Innovation Inc.	10,801	366	-	-	75,170	2,547	45,629	1,546
Dashwire, Inc.	-	-	97	3	-	-	-	-
Beats Electronics, LLC	3,368	114	-	-	-	-	-	-
Saffron Digital Inc.	12,389	420	12,231	414	-	-	60	2
HTC Luxembourg S.a.r.l.	2,664	90	2,611	88	-	-	-	-
HTC Communication Technologies (SH)	15,406	522	-	-	-	-	-	-
Inquisitive Minds, Inc.	24	1	-	-	-	-	-	-
	$ 751,357	$ 25,457	$ 10,438,543	$ 353,675	$ 248,530	$ 8,421	$ 5,545,252	$ 187,883

Deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	$ 657,489	$ 728,326	$ 24,677
Unrealized marketing expenses	3,644,991	3,357,355	113,753
Unrealized contingent losses of purchase orders	379,738	354,942	12,026
Unrealized warranty expenses	1,885,617	2,195,822	74,398
Capitalized expenses	70,614	67,563	2,289
Unrealized royalties	3,538,139	4,895,328	165,862

(Continued)

	2011	2012	
	NT$	NT$	US$ (Note 3)
Unrealized bad-debt expenses	$ 57,499	$ 262,561	$ 8,896
Unrealized valuation loss on financial instruments	24,421	35,842	1,214
Unrealized research materials expenses	-	136,674	4,631
Unrealized sales allowance	-	141,247	4,786
Unrealized salary expenses	5,205	301,476	10,214
Others	8198	145,740	4,938
Loss carryforwards	120,744	153,466	5,200
Tax credit carryforwards	3,146,702	3,125,027	105,881
Total deferred tax assets	13,539,357	15,901,369	538,765
Less: Valuation allowance	(8,934,095)	(9,906,884)	(335,662)
Total deferred tax assets, net	4,605,262	5,994,485	203,103
Deferred tax liabilities			
Unrealized pension cost	(28,585)	(31,554)	(1,069)
Unrealized depreciation	-	(40,574)	(1,374)
Unrealized investment income	-	(226,875)	(7,687)
Unrealized exchange gains	(266,194)	(150,230)	(5,090)
	4,310,483	5,545,252	187,883
Less: Current portion	(1,298,202)	(2,038,910)	(69,082)
Deferred tax assets - noncurrent	$ 3,012,281	$ 3,506,342	$ 118,801

(Concluded)

Details of the tax credit carryforwards were as follows:

Credit Grant Year	Validity Period	2011	2012	
		NT$	NT$	US$ (Note 3)
2007	2007-2011	2,950	-	
2008	2008-2012	833,163	814,121	27,584
2009	2009-2013	2,310,589	2,310,900	78,297
2010	2010-2014	-	6	-
		$ 3,146,702	$ 3,125,027	$ 105,881

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

As of March 31, 2012, the loss carryforwards of HTC BRASIL that gave rise to deferred income tax assets in the Federative Republic of Brazil were NT$1,103 thousand (US$37 thousand). 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 March 31, 2012, the loss carryforwards of Saffron Digital Inc. and Dashwire, Inc. that gave rise to deferred income tax assets in the United States were NT$4,351 thousand (US$148 thousand) and NT$83,851 thousand (US$2,841 thousand), respectively, and could be carried forward for 20 years.

As of March 31, 2012 the loss carryforwards of HTC Communication Co., Ltd. that gave rise to deferred tax assets in People's Republic of China were NT$64,161 thousand (US$2,174 thousand) and could be carried forward for four years.

The income taxes for the three months ended March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	**NT$**	**US$ (Note 3)**
Current income tax	$ 3,125,340	$ 373,584	$ 12,658
(Increase) decrease in deferred income tax assets	(892,799)	376,465	12,755
(Overestimation) underestimation of prior year’s income tax	(16,251)	1,308	44
Income tax	$ 2,216,290	$ 751,357	$ 25,457

The integrated income tax information for the three months ended March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	**NT$**	**US$ (Note 3)**
Balance of imputation credit account (ICA)	$ 3,027,364	$ 2,538,741	$ 86,017
Unappropriated earnings from 1998	67,709,756	80,229,507	2,718,308
Expected creditable ratio (including income tax payable)	15.49%	15.31%	15.31%

For distribution of earnings generated on or after January 1, 1998, the ratio for the imputation credits allocated to stockholders of HTC is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2012 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

In the calculation of the expected creditable ratio for the three months ended March 31, 2011 and 2012, the income taxes payable as of March 31, 2011 and 2012 were included.

23. EARNINGS PER SHARE

Earnings per share (EPS) before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 807,867 thousand shares and 834,256 thousand shares for the three months ended March 31, 2011 and 2012, respectively. EPS for the three months ended March 31, 2011 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2012.

The Accounting Research and Development Foundation issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effects of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year. The related EPS information for the three months ended March 31, 2011 and 2012 were as follows:

	Amount (Numerator)			EPS	
	Before Income Tax	After Income Tax	Shares (Denominator) (In Thousands)	Before Income Tax	After Income Tax
	NT$	NT$		NT$	NT$
Three months ended March 31, 2011					
Basic EPS	$16,667,385	$14,832,864	807,867	$ 20.63	$ 18.36
Bonus to employees	-	-	2,978		
Diluted EPS	$16,667,385	$14,832,864	810,845	$ 20.56	$ 18.29
Three months ended March 31, 2012					
Basic EPS	$ 4,897,817	$ 4,467,192	834,256	$ 5.87	$ 5.35
Bonus to employees	-	-	843		
Diluted EPS	$ 4,897,817	$ 4,467,192	835,099	$ 5.86	$ 5.35

	Amount (Numerator)			EPS	
	Before Income Tax	After Income Tax	Shares (Denominator) (In Thousands)	Before Income Tax	After Income Tax
	US$ (Note 3)	US$ (Note 3)		US$ (Note 3)	US$ (Note 3)
Three months ended March 31, 2012					
Basic EPS	$ 165,946	$ 151,356	834,256	$ 0.20	$ 0.18
Bonus to employees	-	-	843		
Diluted EPS	$ 165,946	$ 151,356	835,099	$ 0.20	$ 0.18

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	March 31					
	2011		2012			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets						
Available-for-sale financial assets - current	$ 442,557	$ 442,557	$ 737,392	$ 24,984	$ 737,392	$ 24,984
Available-for-sale financial assets - noncurrent	530	530	186,856	6,331	186,856	6,331
Held-to-maturity financial assets - noncurrent	207,120	206,746	203,764	6,904	203,093	6,881
Financial assets carried at cost	2,511,772	2,511,772	3,472,035	117,638	3,472,035	117,638

b. Derivative financial instruments

	March 31					
	2011		2012			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Liabilities						
Financial liabilities at fair value through profit or loss - current	$ 143,651	$ 143,651	$ 210,837	$ 7,144	$ 210,837	$ 7,144

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		
	March 31			March 31		
	2011	2012		2011	2012	
	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Assets						
Available-for-sale financial assets - current	$ 442,557	$ 737,392	$ 24,984	$ -	$ -	$ -
Available-for-sale financial assets - noncurrent	530	186,856	6,331	-	-	-
Held-to-maturity financial assets - noncurrent	206,746	203,093	6,881	-	-	-
Financial assets carried at cost	-	-	-	2,511,772	3,472,035	117,638
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	-	-	143,651	210,837	7,144

The Company recognized unrealized gains of NT$610 thousand and NT$114,152 thousand (US$3,868 thousand) for the three months ended March 31, 2011 and 2012, respectively, under stockholders' equity for the changes in fair value of available-for-sale financial assets.

As of March 31, 2011 and 2012, financial assets exposed to fair value interest rate risk amounted to NT$207,120 thousand and NT$203,764 thousand (US$6,904 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT$74,752,030 thousand and NT$40,069,483 thousand (US$1,357,620 thousand), respectively, financial liabilities exposed to fair value interest rate risk amounted to NT$20,313 thousand and NT$0 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.

25. 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
Faith Hope & Love Limited	Its significant stockholder in substance is HTC's chairperson
Way-Lien Technology Co., Ltd.	Significant stockholder of HTC
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

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	Three Months Ended March 31				
	2011		2012		
Related Party	Amount	% to Total Net Purchases	Amount		% to Total Net Purchases
	NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$ 113,719	-	$ -	$ -	-

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

Sales and Services Provided

	Three Months Ended March 31				
	2011		2012		
Related Party	Amount	% to Total Revenues	Amount		% to Total Revenues
	NT$		NT$	US$ (Note 3)	
Faith Hope & Love Limited	$ -	-	$ 2,235,827	$ 75,754	3
Employees' Welfare Committee	52,450	-	219,617	7,441	-
Others	1,425	-	2,734	92	-
	$ 53,875	-	$ 2,458,178	$ 83,287	3

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 and Faith Hope & Love Limited. The collection terms for products sold to related parties were similar to those for sales to third parties.

Accounts Receivable

	March 31				
	2011		2012		
Related Party	Amount	% to Total Accounts Receivable	Amount		% to Total Accounts Receivable
	NT$		NT$	US$ (Note 3)	
Faith Hope & Love Limited	$ -	-	$ 1,328,042	$ 44,996	2
VIA Technologies Inc.	383	-	111	4	-
Others	1,018	-	253	9	-
	$ 1,401	-	$ 1,328,406	$ 45,009	2

Accounts Payable

	March 31				
	2011		2012		
Related Party	Amount	% to Total Accounts Payable	Amount		% to Total Accounts Payable
	NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$ 128,179	-	$ -	$ -	-

Other Receivables

	March 31				
	2011		2012		
Related Party	**Amount**	**% to Total Other Receivable**	**Amount**		**% to Total Other Receivable**
	NT$		**NT$**	**US$ (Note 3)**	
CATCHPLAY, INC.	$ 122	-	$ -	$ -	-

Other Payables to Related Parties

	March 31				
	2011		2012		
Related Party	**Amount**	**% to Total Other Payables**	**Amount**		**% to Total Other Payables**
	NT$		**NT$**	**US$ (Note 3)**	
Employees' Welfare Committee	$ -	-	$ 173,614	$ 5,882	21
Chander Electronics Corp.	154	-	-	-	-
	$ 154	-	$ 173,614	$ 5,882	21

Accrued Expenses

	March 31				
	2011		2012		
Related Party	**Amount**	**% to Total Accrued Expenses**	**Amount**		**% to Total Accrued Expenses**
	NT$		**NT$**	**US$ (Note 3)**	
HTC Cultural and Educational Foundation	$ 217,800	1	$ 217,800	$ 7,379	1
Way-Lien Technology Inc.	410	-	1,020	35	-
Others	104	-	205	7	-
	$ 218,314	1	$ 219,025	$ 7,421	1

Service Fees

Related Party	Three Months Ended March 31				
	2011		2012		
	Amount	% to Total Service Expenses	Amount		% to Total Service Expenses
	NT$		NT$	US$ (Note 3)	
Way-Lien Technology Inc.	$ 600	-	$ 600	$ 20	-

Leasing - Lessee

Operating expenses - rental expenses

Related Party	Three Months Ended March 31				
	2011		2012		
	Amount	% to Total Rental Expenses	Amount		% to Total Rental Expenses
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 1,302	2	$ 1,302	$ 44	2

HTC leased offices and parking space owned by VIA Technologies, Inc. at 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.

Property Transaction

In 2012, HTC bought appendages of building equipment from Chander Electronics Corp. for NT$31,929 thousand (US$1,082 thousand).

Patent Litigation

Note 29 has more information about patent litigation.

26. PLEDGED ASSETS

As of March 31, 2011 and 2012, the Company had provided time deposits of NT$93,347 thousand and NT$38,853 thousand (US$1,316 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.

27. COMMITMENTS AND CONTINGENCIES

As of March 31, 2012, unused letters of credit amounted to US$910 thousand and EUR423 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.

28. SIGNIFICANT CONTRACTS

Patent Agreements

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

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

(Continued)

Contractor	Contract Term	Description
Motorola, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents in the agreement. b. Any time when the Company is not using any of Motorola's intellectual property.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

(Concluded)

29. OTHER EVENTS

Lawsuit

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

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

   In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent owned by IPCom with the High Court in London, the United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in above-mentioned courts in Germany and the United Kingdom are still ongoing. The Company evaluated the lawsuits and consider the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against the Company are very unlikely.

   In March 2012, Washington Court granted on the Company's summary judgment motion and ruled on non-infringement of two of patents-in-suit (the other patent is still reviewed by the court.)

   As of April 24, 2012, the date of the accompanying independent accountants' review report, there had been no critical hearing nor had a court decision been made, except for the above.

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 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). 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 April 24, 2012, the date of the accompanying independent accountants' review report, there had been no critical hearing nor had a court decision been made, except for the above.

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

d. The Company had shared lawsuit-related costs on the basis of common benefits and agreements between its vendors and customers. For the three months ended March 31, 2012, 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 for Taipei R&D headquarter

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 has been completed in April 2012.

Other

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

	March 31			
	2011		2012	
	Foreign Currencies	**Exchange Rate**	**Foreign Currencies**	**Exchange Rate**
Financial assets				
Monetary items				
USD	$ 2,241,815	29.41	$ 2,972,851	29.51
EUR	503,561	41.72	455,681	39.41
GBP	81,626	47.46	36,226	47.25
JPY	1,897,701	0.3549	179,130	0.3593
RMB	581,628	4.4903	984,364	4.6737
Non-monetary items				
USD	61,650	29.41	96,455	29.51
Investments accounted for by the equity method				
USD	-	-	2,215	29.51
Financial liabilities				
Monetary items				
USD	2,784,973	29.41	3,129,541	29.51
EUR	488,399	41.72	498,907	39.41
GBP	61,773	47.46	33,242	47.25
JPY	1,484,725	0.3549	594,546	0.3593
RMB	345,433	4.4903	1,543,807	4.6737

30. SEGMENT DISCLOSURES

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

Selected financial information is as follows:

Geographical Areas

The Company's noncurrent assets (other than financial instruments, deferred income tax assets and post-employment benefit assets) located in an individual foreign country as of March 31, 2011 and 2012 and revenues from domestic and overseas customers for the three months ended March 31, 2011 and 2012 were as follows:

	Non-current Assets			Revenues		
	March 31			Three Months Ended March 31		
	2011	2012		2011	2012	
	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Taiwan	$ 15,601,815	$ 27,266,722	$ 923,841	$ 4,266,239	$ 6,687,953	$ 226,599
Country U	155,997	10,203,765	345,720	52,134,328	10,504,699	355,916
Country V	1,255	3,948	134	1,829,357	7,107,093	240,800

(Continued)

	Non-current Assets			Revenues		
	March 31			Three Months Ended March 31		
	2011	2012		2011	2012	
	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Country W	$ 1,544	$ 3,397	$ 115	$ 3,235,420	$ 6,594,309	$ 223,426
Country X	2,665,602	5,218,127	176,799	2,948,167	5,584,103	189,199
Country Y	2,136,311	2,003,410	67,879	8,161,313	4,516,771	153,036
Country Z	253	812	28	5,375,186	3,416,649	115,762
Others	525,679	10,527,386	356,685	26,206,590	23,378,004	792,085
	$ 21,088,456	$ 55,227,567	$ 1,871,201	$ 104,156,600	$ 67,789,581	$ 2,296,823

(Concluded)

Major Customers

Revenues from transactions with a single external customer amount to 10 percent or more for the three months ended March 31, 2011 and 2012 were as follows:

	2011	2012	
Customer	**NT$**	**NT$**	**US$ (Note 3)**
A	$ 6,934,357	$ 7,490,514	$ 253,791
B	16,435,558	5,434,018	184,113
C	12,211,289	894,675	30,313
D	18,220,448	727,581	24,652
	$ 53,801,652	$ 14,546,788	$ 492,869

31. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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 consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidance 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 March 31, 2012 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

(Continued)

Contents of Plan	Responsible Department	Status of Execution
• 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
• Assess the adjustments of the related information technology system and internal control	Finance and accounting, Intrenal audit and Information technology	Completed
Preparation phase: From January 1, 2011 to December 31, 2012		
• Determine how to adjust the existing accounting policies in accordance with IFRSs	Finance and accounting	Completed
• Determine how to apply to the IFRS 1 - "First-time Adoption of International Financial Reporting Standards"	Finance and accounting	Completed
• Adjust the related information technology system and internal control	Finance and accounting, Intrenal audit and Information technology	In progress
• Conduct phase II internal training for employees	Finance and accounting and Talent management	Completed
Implementation phase: From January 1, 2012 to December 31, 2013		
• Test run the adjusted related information technology system	Finance and accounting and Information technology	In progress
• Gather information to prepare the opening balance sheets and comparative financial statements in conformity with IFRSs	Finance and accounting	In progress
• Prepare financial statements in conformity with IFRSs	Finance and accounting	In progress

(Concluded)

b. As of March 31, 2012, the Company had assessed the material differences and the effects, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

1) Reconciliation of its balance sheet as of January 1, 2012:

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs		IFRSs			
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference	Amount		Item	Note
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Assets							
Current assets							
Cash and cash equivalents	$ 87,501,508	$ -	$ (25,474,750)	$ 62,026,758	$ 2,101,569	Cash and cash equivalents	(1)
-	-	-	25,474,750	25,474,750	863,127	Bank deposits with original maturity more than three months	(1)
Financial assets at fair value through profit or loss - current	256,868	-	-	256,868	8,703	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	736,031	-	-	736,031	24,938	Available-for-sale financial assets - current	
Notes receivable, net	755,450	-	-	755,450	25,596	Notes receivable, net	
Accounts receivable, net	63,964,341	-	-	63,964,341	2,167,217	Accounts receivable, net	
Other financial assets - current	1,405,911	-	-	1,405,911	47,635	Other receivables	
Inventories	28,430,590	-	-	28,430,590	963,275	Inventories	
Prepayments	7,075,231	-	-	7,075,231	239,721	Prepayments	
Deferred income tax assets - current	2,246,196	-	(2,246,196)	-	-	-	(2)
Other current assets	1,055,480	-	-	1,055,480	35,761	Other current assets	
Total current assets	193,427,606	-	(2,246,196)	191,181,410	6,477,542		
Long-term investments							
Available-for-sale financial assets - noncurrent	279	-	-	279	10	Available-for-sale financial assets - noncurrent	
Held-to-maturity financial assets - noncurrent	204,597	-	-	204,597	6,932	Held-to-maturity financial assets - noncurrent	
Financial assets carried at cost - noncurrent	3,408,654	-	-	3,408,654	115,491	Financial assets carried at cost - noncurrent	
Investments accounted for by the equity method	71,732	-	-	71,732	2,430	Investments accounted for by the equity method	
Total long-term investments	3,685,262	-	-	3,685,262	124,863		
Properties	21,512,478	-	-	21,512,478	728,878	Property, plant and equipment	
Intangible assets							
Patents	11,152,098	-	-	11,152,098	377,851	Patents	
Goodwill	10,812,564	-	-	10,812,564	366,348	Goodwill	
Deferred pension cost	342	(342)	-	-	-	-	(4)
Other	595,784	-	-	595,784	20,186	Other intangible assets	
Total intangible assets	22,560,788	(342)	-	22,560,446	764,385		
Other assets							
Refundable deposits	185,306	-	-	185,306	6,278	Refundable deposits	
Deferred charges	763,516	-	-	763,516	25,869	Deferred charges	
Deferred income tax assets - noncurrent	3,675,521	58,000	2,246,196	5,979,717	202,603	Deferred income tax assets	(2), (3)
Restricted assets	68,700	-	-	68,700	2,328	Restricted assets	
Other	8,712,949	(82,999)	-	8,629,950	292,397	Other noncurrent assets	(4)
Total other assets	13,405,992	(24,999)	2,246,196	15,627,189	529,475		
Total	$ 254,592,126	$ (25,341)	$ -	$ 254,566,785	$ 8,625,143		
Liabilities and stockholders' equity							
Current liabilities							
Notes and accounts payable	$ 77,268,293	$ -	$ (28,339,676)	$ 48,928,617	$ 1,657,782	Notes and accounts payable	(5)
Income tax payable	10,570,682	-	-	10,570,682	358,152	Current tax liabilities	
Accrued expenses	46,171,290	99,321	-	46,270,611	1,567,725	Accrued expenses	(6)
Payable for purchase of equipment	812,240	-	-	812,240	27,520	Payable for purchase of equipment	
-			43,472,951	43,472,951	1,472,935	Provisions-current	(5)
Other current liabilities	17,307,355	-	(15,133,275)	2,174,080	73,662	Other current liabilities	(5)
Total current liabilities	152,129,860	99,321	-	152,229,181	5,157,776		
Other liabilities							
Guarantee deposits received	42,946	-	-	42,946	1,455	Guarantee deposits received	
Total liabilities	152,172,806	99,321	-	152,272,127	5,159,231		
Stockholders' equity							
Common stock	8,520,521	-	-	8,520,521	288,689	Common stock	
Capital surplus						Capital surplus	
Additional paid-in capital - issuance of shares in excess of par	14,809,608	-	-	14,809,608	501,774	Additional paid-in capital - issuance of shares in excess of par	
Treasury stock transactions	1,730,458	-	-	1,730,458	58,631	Treasury stock transactions	
Long-term equity investments	18,037	(18,037)	-	-	-	-	(7)
Merger	24,423	-	-	24,423	828	Merger	
Expired stock options	37,068	-	-	37,068	1,256	Expired stock options	

(Continued)

ROC GAAP Item	Amount	The Effect of the Transition from ROC GAAP to IFRSs: Measurement or Recognition Inconsistency	Presentation Difference	IFRSs Amount		IFRSs Item	Note
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Retained earnings							
Legal reserve	$ 10,273,674	$ -	$ -	$ 10,273,674	$ 348,089	Legal reserve	
Special reserve	580,856	-	-	580,856	19,681	Special reserve	
Accumulated earnings	75,762,315	(74,784)	-	75,687,531	2,564,419	Accumulated earnings	(3), (4), (6), (7), (8)
Other equity							
Cumulative translation adjustments	32,134	(32,134)	-	-	-	Cumulative translation adjustments	(8)
Net loss not recognized as pension cost	(293)	293	-	-	-	-	(4)
Unrealized valuation gain on financial instruments	2,939	-	-	2,939	99	Unrealized valuation gain on financial instruments	
Treasury stock	(10,365,144)	-	-	(10,365,144)	(351,189)	Treasury stock	
Equity attributable to stockholders of the parent	101,426,596	(124,662)	-	101,301,934	3,432,277		
Minority interest	992,724	-	-	992,724	33,635	Non-controlling interests	
Total stockholders' equity	102,419,320	(124,662)	-	102,294,658	3,465,912		
Total	$ 254,592,126	$ (25,341)	$ -	$ 254,566,785	$ 8,625,143		

(Concluded)

Note:

(1) 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. Some certificates of deposit the Company held had maturity of more than 3 months from the date of investment; therefore, the reclassification adjustment resulted in a decrease of cash and cash equivalents by NT$25,474,750 thousand (US$863,127 thousand) and a corresponding increase of bank deposits with original maturity more than three months.

(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. Therefore, the reclassification adjustment resulted in a decrease of deferred income tax asset - current by NT$2,246,196 thousand (US$76,105 thousand) and a corresponding increase of deferred income tax asset - noncurrent.

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. Therefore, the reclassification adjustment resulted in a decrease of deferred income tax asset and its valuation allowance account of NT$11,132,656 thousand (US$377,193 thousand).

(3) 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. Therefore, the IFRS adjustment resulted in an increase of deferred income tax asset by NT$58,000 thousand (US$1,965 thousand) and a corresponding increase of accumulated earnings.

(4) In accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards, The Company elected to recognize all cumulative actuarial gains and losses relating to employee benefits at the date of transition to IFRSs. Therefore, the IFRS adjustment resulted in a decrease in accumulated earnings of NT$83,634 thousand (US$2,834 thousand) due to decreases of deferred pension cost by NT$342 thousand (US$12 thousand), defined benefit assets by NT$82,999 thousand (US$2,812 thousand) and net loss not recognized as pension cost by NT$293 thousand (US$10 thousand).

(5) 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. Therefore, provisions - current increased by NT$43,472,951 thousand (US$1,472,935 thousand) resulting from reclassification adjustments of notes and accounts payable of NT$28,339,676 thousand (US$960,195 thousand) and other current liabilities of NT$15,133,275 thousand (US$512,740 thousand).

(6) Accumulated compensated absences 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. Therefore, the IFRS adjustment resulted in an increase of accrued expenses of NT$99,321 thousand (US$3,365 thousand) and a corresponding decrease of accumulated earnings.

(7) Under ROC GAAP, if an investee issues new shares and an investor does not purchase new shares proportionately, the investor's ownership percentage and also its interest in net assets of the investment will be changed. The resulting difference should be used to adjust the capital surplus and long-term equity investment accounts. By contrast, under IFRSs, a reduction in investor's ownership interest would be treated as a deemed disposal, with the related gain or loss recognised in profit or loss, if loss of significant influence or control. An entity may elect whether to adjust the difference retrospectively, and the Company elected to use exemption to the retrospective application. Therefore, the IFRS adjustment resulted in a decrease of capital surplus - long-term equity investments of NT$18,037 thousand (US$611 thousand) and a corresponding increase of accumulated earnings by related rules.

(8) The Company elected to reset the cumulative translation differences to zero at the date of transition to IFRSs, and the reversal has been used to adjust accumulated earnings as of December 31, 2011. The gain or loss on any subsequent disposals of any foreign operations shall exclude cumulative translation differences that arose before the date of transition to IFRSs. Therefore, the IFRS adjustment resulted in a decrease of a cumulative translation differences of NT$32,134 thousand (US$1,089 thousand) and a corresponding increase of accumulated earnings.

2) Reconciliation of the balance sheet as of March 31, 2012:

ROC GAAP Item	ROC GAAP Amount	The Effect of the Transition from ROC GAAP to IFRSs: Measurement or Recognition Inconsistency	Presentation Difference	IFRSs Amount NT$	IFRSs Amount US$ (Note 3)	IFRSs Item	Note
Assets							
Current assets							
Cash and cash equivalents	$ 79,591,273	$ -	$ (26,495,350)	$ 53,095,923	$ 1,798,978	Cash and cash equivalents	(1)
-	-	-	26,495,350	26,495,350	897,706	Bank deposits with original maturity more than three months	(1)
Available-for-sale financial assets - current	737,392	-	-	737,392	24,984	Available-for-sale financial assets - current	
Accounts receivable, net	52,325,059	-	-	52,325,059	1,772,859	Accounts receivable, net	
Other financial assets - current	958,570	-	-	958,570	32,478	Other receivables	
Inventories	28,993,944	-	-	28,993,944	982,363	Inventories	
Prepayments	5,559,350	-	-	5,559,350	188,360	Prepayments	
Deferred income tax assets - current	2,038,910	-	(2,038,910)	-	-	-	(2)
Other current assets	797,223	-	-	797,223	27,011	Other current assets	
Total current assets	171,001,721	-	(2,038,910)	168,962,811	5,724,739		
Long-term investments							
Available-for-sale financial assets - noncurrent	186,856	-	-	186,856	6,331	Available-for-sale financial assets - noncurrent	
Held-to-maturity financial assets - noncurrent	203,764	-	-	203,764	6,904	Held-to-maturity financial assets - noncurrent	
Financial assets carried at cost - noncurrent	3,472,035	-	-	3,472,035	117,638	Financial assets carried at cost - noncurrent	
Investments accounted for by the equity method	316,145	-	-	316,145	10,712	Investments accounted for by the equity method	
Total long-term investments	4,178,800	-	-	4,178,800	141,585		
Properties	22,471,729	-	-	22,471,729	761,379	Property, plant and equipment	
Intangible assets							
Patents	10,578,257	-	-	10,578,257	358,409	Patents	
Goodwill	5,281,049	-	-	5,281,049	178,931	Goodwill	
Deferred pension cost	342	(342)	-	-	-	-	(4)
Other	6,087,904	-	-	6,087,904	206,267	Other intangible assets	
Total intangible assets	21,947,552	(342)	-	21,947,210	743,607		
Other assets							
Refundable deposits	199,327	-	-	199,327	6,753	Refundable deposits	
Deferred charges	798,067	-	-	798,067	27,040	Deferred charges	
Deferred income tax assets - noncurrent	3,506,342	41,000	2,038,910	5,586,252	189,272	Deferred income tax assets	(2), (3)
Restricted assets	38,853	-	-	38,853	1,316	Restricted assets	
Other	10,199,672	(82,594)	-	10,117,078	342,784	Other	(4)
Total other assets	14,742,261	(41,594)	2,038,910	16,739,577	567,165		
Total	$ 234,342,063	$ (41,936)	$ -	$ 234,300,127	$ 7,938,475		
Liabilities and stockholders equity							
Current liabilities							
Financial liabilities at fair value through income statement - current	$ 210,837	$ -	$ -	$ 210,837	$ 7,144	financial liabilities at fair value through income statement - current	
Notes and accounts payable	67,612,962	-	(28,796,047)	38,816,915	1,315,181	Notes and accounts payable	(5)
Income tax payable	10,438,543	-	-	10,438,543	353,675	Current tax liabilities	
Accrued expenses	35,609,721	83,754	-	35,693,475	1,209,354	Accrued expenses	(6)
Payable for purchase of equipment	564,111	-	-	564,111	19,113	Payable for purchase of equipment	
-	-	-	43,675,540	43,675,540	1,479,799	Provisions-current	(5)
Other current liabilities	17,204,960	-	(14,879,493)	2,325,467	78,791	Other current liabilities	(5)
Total current liabilities	131,641,134	83,754	-	131,724,888	4,463,057		
Other liabilities							
Guarantee deposits received	43,014	-	-	43,014	1,457	Guarantee deposits received	
Total liabilities	131,684,148	83,754	-	131,767,902	4,464,514		
Stockholders' equity							
Common stock	8,520,521	-	-	8,520,521	288,689	Common stock	
Capital surplus						Capital surplus	
Additional paid-in capital - issuance of shares in excess of par	14,809,608	-	-	14,809,608	501,774	Additional paid-in capital - issuance of shares in excess of par	
Treasury stock transactions	1,730,458	-	-	1,730,458	58,631	Treasury stock transactions	
Long-term equity investments	18,037	(18,037)	-	-	-	-	(7)
Merger	24,423	-	-	24,423	828	Merger	
Expired stock options	37,068	-	-	37,068	1,256	Expired stock options	
Retained earnings							
Legal reserve	10,273,674	-	-	10,273,674	348,089	Legal reserve	
Special reserve	580,856	-	-	580,856	19,681	Special reserve	
Accumulated earnings	80,229,507	(75,812)	-	80,153,695	2,715,739	Accumulated earnings	(3), (4), (6), (7), (8)

(Continued)

ROC GAAP Item	ROC GAAP Amount	The Effect of the Transition from ROC GAAP to IFRSs: Measurement or Recognition Inconsistency	Presentation Difference	IFRSs Amount NT$	IFRSs Amount US$ (Note 3)	Item	Note
Other equity							
Cumulative translation adjustments	$ (664,130)	$ (32,134)	$ -	$ (696,264)	$ (23,591)	Cumulative translation adjustments	(8)
Net loss not recognized as pension cost	(293)	293	-	-	-	-	(4)
Unrealized valuation gain on financial instruments	117,091	-	-	117,091	3,967	Unrealized valuation gain on financial instruments	
Treasury stock	(14,065,490)	-	-	(14,065,490)	(476,562)	Treasury stock	
Equity attributable to stockholders of the parent	101,611,330	(125,690)	-	101,485,640	3,438,501		
Minority interest	1,046,585	-	-	1,046,585	35,460	Non-controlling interests	
Total stockholders' equity	102,657,915	(125,690)	-	102,532,225	3,473,961		
Total	$ 234,342,063	$ (41,936)	$ -	$ 234,300,127	$ 7,938,475		

(Concluded)

3) Reconciliation of the consolidated income statement for the three months ended March 31, 2012:

ROC GAAP Item	ROC GAAP Amount NT$	The Effect of the Transition from ROC GAAP to IFRSs: Measurement or Recognition Inconsistency NT$	Presentation Difference NT$	IFRSs Amount NT$	IFRSs Amount US$ (Note 3)	Item	Note
Revenues	$ 67,789,581	$ -	$ -	$ 67,789,581	$ 2,296,823	Revenues	
Cost of revenues	50,819,406	(9,006)	-	50,810,400	1,721,540	Cost of revenues	(4), (6)
Gross profit	16,970,175	9,006	-	16,979,181	575,283	Gross profit	
Operating expenses						Operating expenses	
Research and development	3,426,778	(4,443)	-	3,422,335	115,954	Research and development	(4), (6)
General and administrative	1,714,817	(739)	-	1,714,078	58,076	General and administrative	(4), (6)
Selling and marketing	6,724,037	(1,784)	-	6,722,253	227,761	Selling and marketing	(4), (6)
Total operating expenses	11,865,632	(6,966)	-	11,858,666	401,791	Total operating expenses	
Operating income	5,104,543	15,972	-	5,120,515	173,492	Operating income	
Nonoperating income and gains						Nonoperating income and gains	
Interest income	167,214	-	-	167,214	5,665	Interest income	
Exchange gain	448,604	-	-	448,604	15,199	Exchange gain	
Rent revenue	3,984	-	-	3,984	135	Rent revenue	
Other	84,019	-	-	84,019	2,847	Other	
Total nonoperating income and gains	703,821	-	-	703,821	23,846	Total nonoperating income and gains	
Nonoperating expenses and losses						Nonoperating expenses and losses	
Interest expense	320	-	-	320	11	Interest expense	
Investment loss	4,470	-	-	4,470	151	Investment loss	
Losses on disposal of properties	5	-	-	5	-	Losses on disposal of properties	
Valuation loss on financial instruments, net	210,837	-	-	210,837	7,144	Valuation loss on financial instruments, net	
Other	36,401	-	-	36,401	1,233	Other	
Total nonoperating expenses and losses	252,033	-	-	252,033	8,539	Total nonoperating expenses and losses	
Income before income tax	5,556,331	15,972	-	5,572,303	188,799	Income before income tax	
Income tax	(751,357)	(17,000)	-	(768,357)	(26,033)	Income tax	(3)
Net income	$ 4,804,974	$ (1,028)	$ -	$ 4,803,946	$ 162,766	Net income	
				$ (696,264)	$ (23,591)	Exchange differences on translating foreign operations	
				114,152	3,868	Unrealized valuation gain on available-for-sale financial assets	
				-	-	Income tax relating to components of OCI	
				(582,112)	(19,723)	OCI for the year (net of tax)	
				$ 4,221,834	$ 143,043	Other comprehensive income	

Note:

(1) 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. Some certificates of deposit the Company held had maturity of more than 3 months from the date of investment; therefore, the reclassification adjustment resulted in a decrease of cash and cash equivalents by NT$26,495,350 thousand (US$897,706 thousand) and a corresponding increase of bank deposits with original maturity more than three months.

(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. Therefore, the reclassification adjustment resulted in a decrease of deferred income tax asset - current by NT$2,038,910 thousand (US$69,082 thousand) and a corresponding increase of deferred income tax asset - noncurrent.

    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. Therefore, the reclassification adjustment resulted in a decrease of deferred income tax asset and its valuation allowance account of NT$9,906,884 thousand (US$335,662 thousand).

(3) 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. Therefore, the IFRS adjustment as of January 1, 2012, resulted in an increase of deferred income tax asset by NT$58,000 thousand (US$1,965 thousand) and a corresponding increase of accumulated earnings. In addition, the evaluation adjustment made on March 31, 2012 resulted in an decrease of deferred income tax assets by NT$17,000 thousand (US$576 thousand) and an corresponding increase of income tax expense. Thus, accumulated earnings decreased by NT$17,000 thousand (US$576 thousand) accordingly.

(4) In accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards, The Company elected to recognize all cumulative actuarial gains and losses relating to employee benefits at the date of transition to IFRSs. Therefore, the IFRS adjustment resulted in a decrease in accumulated earnings of NT$83,229 thousand (US$2,820 thousand) due to decreases of deferred pension cost by NT$342 thousand (US$12 thousand), defined benefit assets by NT$82,594 thousand (US$2,798 thousand) and net loss not recognized as pension cost by NT$293 thousand (US$10 thousand). The IFRS adjustment also resulted in decreases of cost of revenues by 123 thousand (US$4 thousand), selling and marketing expenses by NT$33 thousand (US$1 thousand) and general and administrative expenses by NT$38 thousand (US$1 thousand) and research and developing expenses by NT$211 thousand (US$7 thousand).

(5) 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. Therefore, provisions - current increased by NT$43,675,540 thousand (US$1,479,799 thousand) resulting from reclassification adjustments of notes and accounts payable of NT$28,796,047 thousand (US$975,657 thousand) and other current liabilities of NT$14,879,493 thousand (US$504,142 thousand).

(6) Accumulated compensated absences 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. Therefore, the IFRS adjustment as of January 1, 2012, resulted in an increase of accrued expenses of NT$99,321 thousand (US$3,365 thousand) and a corresponding decrease of accumulated earnings. In addition, the evaluation adjustment made on March 31, 2012 resulted in decreases of accrued expenses by NT15,567 thousand (US$527 thousand), cost of revenues by NT$8,883 thousand (US$301 thousand), selling and marking expenses by NT$1,751 thousand (US$59 thousand), general and administrative expenses by NT$701 thousand (US$24 thousand) and research and develping expenses by NT$4,232 thousand (US$143 thousand). Thus, accumulated earnings increased by NT$15,567 thousand (US$527 thousand).

(7) Under ROC GAAP, if an investee issues new shares and an investor does not purchase new shares proportionately, the investor’s ownership percentage and also its interest in net assets of the investment will be changed. The resulting difference should be used to adjust the capital surplus and long-term equity investment accounts. By contrast, under IFRSs, a reduction in investor’s ownership interest would be treated as a deemed disposal, with the related gain or loss recognised in profit or loss, if loss of significant influence or control. An entity may elect whether to adjust the difference retrospectively, and the Company elected to use exemption to the retrospective application. Therefore, the IFRS adjustment resulted in a decrease of capital surplus - long-term equity investments of NT$18,037 thousand (US$611 thousand) and a corresponding increase of accumulated earnings by related rules.

(8) The Company elected to reset the cumulative translation differences to zero at the date of transition to IFRSs, and the reversal has been used to adjust accumulated earnings as of December 31, 2011. The gain or loss on any subsequent disposals of any foreign operations shall exclude cumulative translation differences that arose before the date of transition to IFRSs. Therefore, the IFRS adjustment resulted in a decrease of a cumulative translation differences of NT$32,134 thousand (US$1,089 thousand) and a corresponding increase of accumulated earnings.

c. In accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards, an entity should comply with each IFRS effective at the first-time adoption to prepare and present financial statements and adjust retrospectively, except that the IFRS grants optional exemptions and mandatory exemptions. The Company elected to use following optional exemptions:

1) Business combinations:

The Company elected not to apply IFRS 3 - Business Combination retrospectively to past business combinations that occurred before the date of transition to IFRSs. Therefore, the carrying amount of goodwill arising from past business combinations in the opening IFRS consolidated balance sheet is its carrying amount in accordance with previous ROC GAAP as of December 31, 2011.

2) Goodwill arising from business combinations and fair value adjustments:

In accordance with IAS 21 - The Effects of Changes in Foreign Exchange Rates, any goodwill and any fair value adjustment to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation shall be treated as assets and liabilities of the foreign operation. Therefore, goodwill and those fair value adjustments shall be expressed in the foreign operation's functional currency and shall be translated at the closing rate at the end of the reporting period. The Company elected not to apply IAS 21 retrospectively to goodwill and those fair value adjustments arising from business combinations that occurred before the date of transition to IFRSs. Therefore, goodwill and fair value adjustments that occurred before the date of transition to IFRSs are expressed using the historical exchange rates.

3) Share-based payment transactions:

The Company elected to use the exemption from retrospective application of IFRS 2 - Share-based Payment to all equity instruments that were granted and vested before the date of transition to IFRSs.

4) Employee benefits:

The Company elected to recognize all cumulative actuarial gains and losses relating to employee benefits in accumulated earnings at the date of transition to IFRSs.

5) Cumulative translation differences:

The Company elected to reset the cumulative translation differences to zero at the date of transition to IFRSs, and the reversal has been used to offset accumulated earnings as of December 31, 2011. Thus, the gain or loss on any subsequent disposal of foreign operations shall exclude translation differences that arose before the date of transition to IFRSs.

6) Fair value measurement of financial assets or financial liabilities:

It is impractical for the Company to apply the treatment that relates to the recognition of profit or loss at initial recognition of financial instruments in IAS 39 - Financial Instruments: Recognition and Measurement.

The foregoing optional exemptions that the Company plan to elect are subject to changes arising from the management's consideration and assessment; therefore, the actual results may vary.

d. Special reserve at the date of transition to IFRSs

In accordance with the order VI-1010012865 issued by FSC on April 6, 2012, at the first-time adoption of IFRSs, an entity shall appropriate a corresponding amount to special reserve same as the IFRS adjustment, in which case an entity elects to use exemption application specified in IFRS 1 and resets unrealized revaluation increment and cumulative translation differences under stockholders' equity to zero, and its retained earnings is being increased accordingly. However, if the retained earnings arising from IFRS adjustment at the first-time adoption is insufficient, special reserve shall be appropriated by the amount that retained earnings increase from the IFRS adjustment. While subsequent usage, disposal or reclassification of the related assets, special reserve shall be reversed in proportion.

The Company elected to reset the cumulative translation differences of NT$32,134 thousand (US$1,089 thousand) to zero and credited a corresponding amount to retained earnings. However, the Company's total IFRS adjustments, at the first-time adoption of IFRSs, resulted in a decrease of retain earnings by NT$74,784 thousand (US$2,534 thousand). Therefore, no special reserve was appropriated.

e. 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 Statements 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 recognized 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 recognized 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.