

## **HTC Corporation and Subsidiaries**

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

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
HTC Corporation

We have audited the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of June 30, 2011 and 2012, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six 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 express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HTC Corporation and subsidiaries as of June 30, 2011 and 2012, and the results of their operations and their cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Our audits also comprehended the translation of the 2012 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

July 31, 2012

### Notice to Readers

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

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

## HTC CORPORATION AND SUBSIDIARIES

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

ASSETS	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 5)	\$ 115,707,444	\$ 81,246,878	\$ 2,718,651
Financial assets at fair value through profit or loss - current (Notes 2, 6 and 26)	-	181,288	6,066
Available-for-sale financial assets - current (Notes 2 and 7)	733,446	794,213	26,576
Notes and accounts receivable, net (Notes 2, 9 and 27)	69,994,288	66,125,253	2,212,657
Restricted assets - current (Notes 2 and 28)	-	365,166	12,219
Other current financial assets (Notes 10 and 27)	1,225,807	1,295,681	43,355
Inventories (Notes 2 and 11)	30,943,105	26,658,855	892,048
Prepayments (Note 12)	5,367,143	9,442,543	315,963
Deferred income tax assets (Notes 2 and 24)	1,895,209	2,561,478	85,711
Other current assets	<u>1,616,281</u>	<u>859,649</u>	<u>28,765</u>
Total current assets	<u>227,482,723</u>	<u>189,531,004</u>	<u>6,342,011</u>
LONG-TERM INVESTMENTS			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	591	189	6
Held-to-maturity financial assets - noncurrent (Notes 2 and 13)	206,285	202,922	6,790
Financial assets carried at cost - noncurrent (Notes 2 and 14)	2,682,837	3,690,929	123,505
Investments accounted for by the equity method (Notes 2 and 15)	<u>-</u>	<u>309,374</u>	<u>10,352</u>
Total long-term investments	<u>2,889,713</u>	<u>4,203,414</u>	<u>140,653</u>
PROPERTIES (Notes 2, 16 and 27)			
Cost			
Land	7,612,730	7,614,312	254,787
Buildings and structures	5,502,869	11,710,032	391,836
Machinery and equipment	9,164,824	12,096,892	404,782
Molding equipment	172,632	-	-
Computer equipment	559,434	848,171	28,381
Transportation equipment	7,741	7,691	257
Furniture and fixtures	304,974	444,636	14,878
Leased assets	5,885	6,744	226
Leasehold improvements	<u>351,906</u>	<u>574,839</u>	<u>19,235</u>
	23,682,995	33,303,317	1,114,382
Less: Accumulated depreciation	(6,418,058)	(8,152,222)	(272,786)
Prepayments for construction-in-progress and equipment-in-transit	<u>1,180,618</u>	<u>388,490</u>	<u>12,999</u>
Properties, net	<u>18,445,555</u>	<u>25,539,585</u>	<u>854,595</u>
INTANGIBLE ASSETS (Notes 2 and 17)			
Patents	2,254,448	10,296,588	344,541
Goodwill	1,958,475	5,329,646	178,338
Deferred pension cost	416	342	12
Other intangible assets	<u>124,348</u>	<u>6,065,801</u>	<u>202,971</u>
Total intangible assets	<u>4,337,687</u>	<u>21,692,377</u>	<u>725,862</u>
OTHER ASSETS			
Refundable deposits	144,997	186,988	6,257
Deferred charges (Note 2)	379,688	921,121	30,822
Deferred income tax assets (Notes 2 and 24)	3,537,041	3,371,714	112,823
Restricted assets - noncurrent (Notes 2 and 28)	72,304	37,684	1,261
Others (Notes 2, 12 and 20)	<u>5,126,867</u>	<u>9,240,923</u>	<u>309,216</u>
Total other assets	<u>9,260,897</u>	<u>13,758,430</u>	<u>460,379</u>
TOTAL	<u>\$ 262,416,575</u>	<u>\$ 254,724,810</u>	<u>\$ 8,523,500</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss (Notes 2, 6 and 26)	155,880	-	-
Hedging derivative liabilities - current (Notes 2, 8 and 26)	-	15,871	531
Notes and accounts payable (Note 27)	77,531,011	79,222,932	2,650,926
Income tax payable (Notes 2 and 24)	6,503,700	2,056,643	68,819
Accrued expenses (Notes 18 and 27)	48,289,191	43,653,132	1,460,704
Payable for purchase of equipment (Note 27)	458,207	2,470,452	82,665
Other current liabilities (Notes 2, 19 and 27)	<u>46,091,647</u>	<u>50,193,914</u>	<u>1,679,569</u>
Total current liabilities	<u>179,029,636</u>	<u>177,612,944</u>	<u>5,943,214</u>
OTHER LIABILITIES			
Guarantee deposits received	<u>18,137</u>	<u>98,879</u>	<u>3,308</u>
Total liabilities	<u>179,047,773</u>	<u>177,711,823</u>	<u>5,946,522</u>
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF PARENT (Note 21)			
Capital stock - NT\$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 817,653 thousand shares in 2011 and 852,052 thousand shares in 2012			
Common stock	8,176,532	8,520,521	285,110
Stock dividends for distribution	443,989	-	-
Capital surplus			
Additional paid-in capital - issuance of shares in excess of par	10,777,623	14,809,608	495,553
Treasury stock transactions	-	1,730,458	57,904
Long-term equity investments	18,411	18,037	604
Merger	24,710	24,423	817
Employee stock options	1,800,608	-	-
Expired stock options	-	37,068	1,241
Other	4,205,796	-	-
Retained earnings			
Legal reserve	10,273,674	16,471,254	551,155
Special reserve	580,856	-	-
Accumulated earnings	54,357,978	48,765,769	1,631,780
Other equity			
Cumulative translation adjustments (Note 2)	(439,427)	(508,471)	(17,014)
Net loss not recognized as pension cost	(121)	(293)	(10)
Unrealized gains on financial instruments (Notes 2 and 26)	666	14,532	486
Treasury stock (Notes 2 and 22)	<u>(6,852,493)</u>	<u>(14,065,490)</u>	<u>(470,654)</u>
Total equity attributable to stockholders of the parent	83,368,802	75,817,416	2,536,972
MINORITY INTEREST	<u>-</u>	<u>1,195,571</u>	<u>40,006</u>
Total stockholders' equity	<u>83,368,802</u>	<u>77,012,987</u>	<u>2,576,978</u>
TOTAL	<u>\$ 262,416,575</u>	<u>\$ 254,724,810</u>	<u>\$ 8,523,500</u>

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

# HTC CORPORATION AND SUBSIDIARIES

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 27)			
Sales	\$ 229,411,333	\$ 156,576,470	\$ 5,239,300
Sales returns and allowances	(968,982)	(1,245,013)	(41,660)
Net sales	228,442,351	155,331,457	5,197,640
Other operating revenues	112,254	3,499,000	117,082
Total revenues	228,554,605	158,830,457	5,314,722
COST OF REVENUES (Notes 11, 23 and 27)	162,310,744	117,273,072	3,924,145
GROSS PROFIT	66,243,861	41,557,385	1,390,577
OPERATING EXPENSES (Notes 23 and 27)			
Selling and marketing	18,770,889	16,759,486	560,799
General and administrative	2,735,501	3,436,513	114,991
Research and development	9,022,969	8,061,264	269,743
Total operating expenses	30,529,359	28,257,263	945,533
OPERATING INCOME	35,714,502	13,300,122	445,044
NONOPERATING INCOME AND GAINS			
Interest income	308,473	327,491	10,958
Gains on sale of investments	29	39,656	1,327
Exchange gains (Note 2)	1,060,538	378,998	12,682
Valuation gain on financial assets, net (Notes 2, 6 and 8)	-	183,411	6,137
Other	114,054	261,172	8,740
Total nonoperating income and gains	1,483,094	1,190,728	39,844
NONOPERATING EXPENSES AND LOSSES			
Interest expense	8,547	499	17
Loss on equity-method investments (Notes 2 and 15)	-	12,069	404
Losses on disposal of properties	344	120	4
Valuation loss on financial instruments, net (Notes 2 and 6)	155,880	-	-
Other	14,722	55,089	1,843
Total nonoperating expenses and losses	179,493	67,777	2,268

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# HTC CORPORATION AND SUBSIDIARIES

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
INCOME BEFORE INCOME TAX	\$ 37,018,103	\$ 14,423,073	\$ 482,620
INCOME TAX (Notes 2 and 24)	<u>(4,661,138)</u>	<u>(1,948,241)</u>	<u>(65,192)</u>
NET INCOME	<u>\$ 32,356,965</u>	<u>\$ 12,474,832</u>	<u>\$ 417,428</u>
ATTRIBUTABLE TO			
Stockholders of the parent	\$ 32,356,965	\$ 11,869,263	\$ 397,164
Minority interest	<u>-</u>	<u>605,569</u>	<u>20,264</u>
	<u>\$ 32,356,965</u>	<u>\$ 12,474,832</u>	<u>\$ 417,428</u>

	<u>2011</u>		<u>2012</u>		
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$ US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 25)	<u>\$ 42.93</u>	<u>\$ 38.13</u>	<u>\$ 15.68</u>	<u>\$ 0.52</u>	<u>\$ 14.25</u> <u>\$ 0.48</u>
DILUTED EARNINGS PER SHARE (Note 25)	<u>\$ 42.71</u>	<u>\$ 37.93</u>	<u>\$ 15.62</u>	<u>\$ 0.52</u>	<u>\$ 14.19</u> <u>\$ 0.47</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

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

	Capital Stock		Capital Surplus							Retained Earning			Other Equity					Minority Interest	Total
	Issued and Outstanding Common Stock	Stock Dividends for Distribution	Issuance of Shares in Excess of Par	Treasury Stock Transactions	Long-term Equity Investments	Merger	Employee Stock Options	Expired Stock Options	Other	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gains (Losses) on Financial Instruments	Treasury Stock			
BALANCE, JANUARY 1, 2011	\$ 8,176,532	\$ -	\$ 10,777,623	\$ -	\$ 18,411	\$ 24,710	\$ -	\$ -	\$ -	\$ 10,273,674	\$ -	\$ 52,876,892	\$ (579,849)	\$ (121)	\$ (885)	\$ (6,852,493)	\$ -	\$ 74,714,494	
Appropriation of the 2010 net earnings																			
Stock dividends	-	403,934	-	-	-	-	-	-	-	-	-	(403,934)	-	-	-	-	-	-	
Special reserve	-	-	-	-	-	-	-	-	-	-	580,856	(580,856)	-	-	-	-	-	-	
Cash dividends	-	-	-	-	-	-	-	-	-	-	-	(29,891,089)	-	-	-	-	-	(29,891,089)	
Transfer of employee bonuses to common stock	-	40,055	-	-	-	-	-	-	4,205,796	-	-	-	-	-	-	-	-	4,245,851	
Net income for the six months ended June 30, 2011	-	-	-	-	-	-	-	-	-	-	-	32,356,965	-	-	-	-	-	32,356,965	
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	140,422	-	-	-	-	140,422	
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,551	-	-	1,551	
Compensation cost recognized for the transfer of treasury stock to employees	-	-	-	-	-	-	1,800,608	-	-	-	-	-	-	-	-	-	-	1,800,608	
BALANCE, JUNE 30, 2011	<u>\$ 8,176,532</u>	<u>\$ 443,989</u>	<u>\$ 10,777,623</u>	<u>\$ -</u>	<u>\$ 18,411</u>	<u>\$ 24,710</u>	<u>\$ 1,800,608</u>	<u>\$ -</u>	<u>\$ 4,205,796</u>	<u>\$ 10,273,674</u>	<u>\$ 580,856</u>	<u>\$ 54,357,978</u>	<u>\$ (439,427)</u>	<u>\$ (121)</u>	<u>\$ 666</u>	<u>\$ (6,852,493)</u>	<u>\$ -</u>	<u>\$ 83,368,802</u>	
BALANCE, JANUARY 1, 2012	\$ 8,520,521	\$ -	\$ 14,809,608	\$ 1,730,458	\$ 18,037	\$ 24,423	\$ -	\$ 37,068	\$ -	\$ 10,273,674	\$ 580,856	\$ 75,762,315	\$ 32,134	\$ (293)	\$ 2,939	\$ (10,365,144)	\$ 992,724	\$ 102,419,320	
Appropriation of the 2011 net earnings																			
Legal reserve	-	-	-	-	-	-	-	-	-	6,197,580	-	(6,197,580)	-	-	-	-	-	-	
Special reserve reversed	-	-	-	-	-	-	-	-	-	-	(580,856)	580,856	-	-	-	-	-	-	
Cash dividends	-	-	-	-	-	-	-	-	-	-	-	(33,249,085)	-	-	-	-	-	(33,249,085)	
Net income for the six months ended June 30, 2012	-	-	-	-	-	-	-	-	-	-	-	11,869,263	-	-	-	-	605,569	12,474,832	
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	(540,605)	-	-	-	-	(540,605)	
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,587	-	-	29,587	
Change in unrealized loss on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(17,994)	-	-	(17,994)	
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,700,346)	-	(3,700,346)	
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(402,722)	(402,722)	
BALANCE, JUNE 30, 2012	<u>\$ 8,520,521</u>	<u>\$ -</u>	<u>\$ 14,809,608</u>	<u>\$ 1,730,458</u>	<u>\$ 18,037</u>	<u>\$ 24,423</u>	<u>\$ -</u>	<u>\$ 37,068</u>	<u>\$ -</u>	<u>\$ 16,471,254</u>	<u>\$ -</u>	<u>\$ 48,765,769</u>	<u>\$ (508,471)</u>	<u>\$ (293)</u>	<u>\$ 14,532</u>	<u>\$ (14,065,490)</u>	<u>\$ 1,195,571</u>	<u>\$ 77,012,987</u>	

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

## HTC CORPORATION AND SUBSIDIARIES

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

	Capital Stock Issued and Outstanding Common Stock	Issuance of Shares in Excess of Par	Capital Surplus				Retained Earning			Other Equity					Total
			Treasury Stock transaction	Long-term Equity Investments	Merger	Expired Stock Option	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gains on Financial Instruments	Treasury Stock	Minority Interest	
BALANCE, JANUARY 1, 2012	\$ 285,110	\$ 495,553	\$ 57,904	\$ 604	\$ 817	\$ 1,241	\$ 343,774	\$ 19,436	\$ 2,535,129	\$ 1,076	\$ (10)	\$ 98	\$ (346,834)	\$ 33,218	\$ 3,427,116
Appropriation of the 2011 net earnings															
Legal reserve	-	-	-	-	-	-	207,381	-	(207,381)	-	-	-	-	-	-
Special reversed	-	-	-	-	-	-	-	(19,436)	19,436	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(1,112,568)	-	-	-	-	-	(1,112,568)
Net income for the six months ended June 30, 2012	-	-	-	-	-	-	-	-	397,164	-	-	-	-	20,264	417,428
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(18,090)	-	-	-	-	(18,090)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	990	-	-	990
Change in unrealized loss on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	(602)	-	-	(602)
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(123,820)	-	(123,820)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,476)	(13,476)
BALANCE, JUNE 30, 2012	<u>\$ 285,110</u>	<u>\$ 495,553</u>	<u>\$ 57,904</u>	<u>\$ 604</u>	<u>\$ 817</u>	<u>\$ 1,241</u>	<u>\$ 551,155</u>	<u>\$ -</u>	<u>\$ 1,631,780</u>	<u>\$ (17,014)</u>	<u>\$ (10)</u>	<u>\$ 486</u>	<u>\$ (470,654)</u>	<u>\$ 40,006</u>	<u>\$ 2,576,978</u>

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

# HTC CORPORATION AND SUBSIDIARIES

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 32,356,965	\$ 12,474,832	\$ 417,428
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	648,601	1,029,083	34,435
Amortization	278,121	1,006,456	33,678
Compensation cost recognized for the transfer of treasury stock to employees	1,800,608	-	-
Amortization of premium on financial assets	1,661	1,675	56
Prepaid pension costs	(14,157)	(10,737)	(359)
Loss on equity-method investments	-	12,069	404
Losses on disposal of properties	344	120	4
Transfer of properties to expenses	280	12,827	429
Gain on sale of investments, net	(29)	(39,656)	(1,327)
Unrealized gain on financial instruments	-	(2,123)	(71)
Deferred income tax assets	(2,014,566)	(11,475)	(384)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	641,785	75,580	2,529
Notes and accounts receivable	(8,258,484)	(1,405,462)	(47,029)
Inventories	(4,529,358)	1,771,735	59,285
Prepayments	(1,485,162)	(1,162,475)	(38,898)
Other current assets	(848,456)	195,825	6,553
Other current financial assets	(442,267)	110,117	3,685
Other assets-others	(2,469,729)	(517,237)	(17,308)
Notes and accounts payable	14,284,596	749,802	25,089
Income tax payable	(315,281)	(8,514,024)	(284,893)
Accrued expenses	19,066,124	(2,299,367)	(76,941)
Other current liabilities	3,144,086	(573,853)	(19,202)
Net cash provided by operating activities	<u>51,845,682</u>	<u>2,903,712</u>	<u>97,163</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of available-for-sale financial assets	(490,000)	-	-
Proceeds of the sale of available-for-sale financial assets	200,029	85,938	2,876
Purchase of financial assets carried at cost	(1,687,797)	(390,948)	(13,082)
Acquisition of a subsidiary	(1,373,164)	(101,157)	(3,385)
Purchase of properties	(4,927,875)	(3,718,853)	(124,439)
Proceeds of the sale of properties	604	7,106	238
Decrease (increase) in refundable deposits	5,863	(1,682)	(56)
Increase in deferred charges	(164,332)	(215,641)	(7,216)
Decrease (increase) in restricted assets	23,384	(334,150)	(11,181)

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# HTC CORPORATION AND SUBSIDIARIES

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Increase in intangible assets	\$ (2,174,400)	\$ (72,886)	\$ (2,439)
Loss of a subsidiary	<u>-</u>	<u>(501,425)</u>	<u>(16,779)</u>
Net cash used in investing activities	<u>(10,587,688)</u>	<u>(5,243,698)</u>	<u>(175,463)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in long-term bank loans	(24,376)	-	-
Increase in guarantee deposits received	4,178	55,933	1,872
Purchase of treasury stock	-	(3,700,346)	(123,820)
Decrease in minority interest	<u>-</u>	<u>(105,156)</u>	<u>(3,519)</u>
Net cash used in financing activities	<u>(20,198)</u>	<u>(3,749,569)</u>	<u>(125,467)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>6,787</u>	<u>(165,075)</u>	<u>(5,524)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,244,583	(6,254,630)	(209,291)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>74,462,861</u>	<u>87,501,508</u>	<u>2,927,942</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 115,707,444</u>	<u>\$ 81,246,878</u>	<u>\$ 2,718,651</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid during the period			
Interest	\$ 9,765	\$ 499	\$ 17
Income tax	<u>\$ 6,981,421</u>	<u>\$ 10,473,740</u>	<u>\$ 350,468</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Transfer of retained earnings to stock dividends for distribution	\$ 403,934	\$ -	\$ -
Transfer of assets leased to others to properties	\$ 50,828	\$ -	\$ -
Transfer of accrued stock bonus to employees to stock dividends for distribution and other capital surplus	<u>\$ 4,245,851</u>	<u>\$ -</u>	<u>\$ -</u>
<b>ACQUISITION OF A SUBSIDIARY</b>			
Net cash outflow on the acquisition of a subsidiary	\$ 1,374,772	\$ 312,484	\$ 10,456
Increase in other payable	<u>(1,608)</u>	<u>(211,327)</u>	<u>(7,071)</u>
Cash paid for acquisition of a subsidiary	<u>\$ 1,373,164</u>	<u>\$ 101,157</u>	<u>\$ 3,385</u>

(Continued)

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2011 AND 2012

(In Thousands)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 4,980,436	\$ 5,377,065	\$ 179,925
Increase in payables for the purchase of equipment	(16,231)	(1,658,212)	(55,486)
Increase in lease payable	(36,330)	-	-
Cash paid for purchase of properties	<u>\$ 4,927,875</u>	<u>\$ 3,718,853</u>	<u>\$ 124,439</u>

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

(Concluded)

# HTC CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2011 AND 2012

(In Thousands, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

HTC Corporation (“HTC”) was incorporated on May 15, 1997 under the Company Law of the Republic of China to design, manufacture, assemble, process, and sell smart handheld devices and provide after-sales service. In March 2002, HTC had its stock listed on the Taiwan Stock Exchange. On November 19, 2003, HTC listed some of its shares of stock on the Luxembourg Stock Exchange in the form of Global Depositary Receipts

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company”, had 13,750 and 16,477 employees as of June 30, 2011 and 2012, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For readers’ convenience, the accompanying consolidated 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 consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include the English translation of the additional footnote disclosures that are not required under ROC generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

Significant accounting policies are summarized as follows:

#### Principles of Consolidation

All majority-owned subsidiaries or controlled entities, even though HTC owns less than 50% of the voting rights of the investee companies directly or indirectly, are included in the consolidated financial statements.

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

The consolidated entities as of June 30, 2011 and 2012 were as follows:

Investor	Investee	Main Businesses	% of Ownership		Remark
			2011	2012	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	100.00	100.00	Incorporated in August 2000
	Communication Global Certification Inc.	Telecom testing and certification services	100.00	100.00	Investment received in January 2007
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; 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 service	1.00	1.00	Incorporated in December 2007

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2011	2012	
HTC Corporation	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 service	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.
	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 service	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 Holding Cooperatief U.A.	International holding company	99.00	99.00	Incorporated in October 2009
	HTC HK, Limited	International holding company; 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 Communication Technologies (SH)	Design, research and development of application software	-	100.00	Incorporated in November 2011
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 a direct subsidiary of HTC in December 2009 for Company reorganization
	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

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2011	2012	
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	Incorporated in October 2009
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	Incorporated in January 2008 and was acquired from an indirect subsidiary of HTC in February 2010 for Company reorganization
	HTC South Eastern Europe Limited liability Company	"	0.67	0.67	Incorporated in June 2010
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company Marketing, repair and after-sales services	100.00	100.00	Incorporated in July 2003, and was acquired from a direct subsidiary of HTC in February 2010 for Company reorganization
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	Incorporated in October 2006, and was acquired from a direct subsidiary of HTC 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	International holding company; marketing, repair and after-sales services	100.00	100.00	Incorporated in April 2010
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	Incorporated in June 2010
	HTC Nordic ApS.	"	100.00	100.00	Incorporated in July 2006, and was acquired from an indirect subsidiary 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 subsidiary of HTC in October 2010 for 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.	International holding company, 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	100.00	Incorporated in April 2011
	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	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	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	International holding company, design, research and development of application software	100.00	100.00	Investment received in July 2010

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2011	2012	
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
	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	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 2012, HTC recognized, based on the "unit purchase agreement", an additional consideration of NT\$267,463 thousand (US\$8,950 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. In January 2011, HTC wholly acquired the shares issued by Saffron Media Group Ltd. 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	-
Properties	8,629		-	-
Other assets	1,130		-	-
Current liabilities	(142,250)		-	-
Net assets	<u>\$ 48,076</u>		<u>\$ 73</u>	<u>\$ 2</u>
Cash consideration	\$ 1,393,717		\$ 45,090	\$ 1,508
Cash on hand and in banks	(18,945)		(69)	(2)
Net cash outflow on the acquisition of subsidiaries	<u>\$ 1,374,772</u>		<u>\$ 45,021</u>	<u>\$ 1,506</u>

## **Foreign Currencies**

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

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

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

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

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

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

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

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

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

## **Accounting Estimates**

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

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

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

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

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

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

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

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

## **Available-for-sale Financial Assets**

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

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

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

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

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

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



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

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

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

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

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

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

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

## **Inventories**

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

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

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

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

### **Hedge Accounting**

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

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

a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

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

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

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

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

The acquisition cost is allocated to the assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The fair value of the net identifiable assets acquired in excess of the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement

benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee; however, if the Company has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee.

When the Company subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the Company records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

### **Properties**

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

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

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

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

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

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

### **Intangible Assets**

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. 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 first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

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

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

## **Accrued Marketing Expenses**

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

## **Warranty Provisions**

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

## **Provisions for Contingent Loss on Purchase Orders**

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

## **Product-related Costs**

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

## **Pension Plan**

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

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

## **Income Tax**

The Company applies the intra-year and inter-year allocation methods to its income tax, whereby (1) a portion of income tax expense is allocated to the cumulative effect of changes in accounting principles or charged or credited directly to shareholders' equity; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

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

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

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

## **Treasury Stock**

Under SFAS No. 30, "Accounting for Treasury Stocks," when the Company acquires its outstanding shares which haven't been disposed or retired, treasury stock is stated at cost and shown as a deduction in shareholders' equity. When treasury stocks are sold, if the selling price is above the book value, the difference should be credited to the capital surplus – treasury stock transactions. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. The carrying value of treasury stocks calculated by using the weighted-average approach according to the purpose.

When the Company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. An excess of the carrying value of treasury stock over the sum of its par value and premium on stock first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. An excess of the sum of the par value and premium on stock of treasury stock over its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

## Reclassifications

Certain 2011 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the six months ended June 30, 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\$29.885 to US\$1.00 quoted by Reuters on June 30, 2012. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

### 4. ACCOUNTING CHANGES

#### Financial Instruments

On January 1, 2011, the Company adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions includes (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change had no material effect on the Company's financial statements as of and for the six months ended June 30, 2012.

#### Operating Segments

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

### 5. CASH AND CASH EQUIVALENTS

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

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$</b>
			<b>(Note 3)</b>
Cash on hand	\$ 6,288	\$ 12,680	\$ 424
Checking accounts	44,832	10,457	350
Demand deposits	12,164,785	30,481,156	1,019,949
Time deposits	<u>103,491,539</u>	<u>50,742,585</u>	<u>1,697,928</u>
	<u>\$ 115,707,444</u>	<u>\$ 81,246,878</u>	<u>\$ 2,718,651</u>

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

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

Financial assets and liabilities at fair value through profit or loss as of June 30, 2011 and 2012 were as follows:

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

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

### Forward Exchange Contracts

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

Net loss on derivative financial instruments for the six months ended June 30, 2011 was NT\$948,138 thousand, including realized settlement loss of NT\$792,258 thousand and valuation loss of NT\$155,880 thousand, and were classified as exchange loss and valuation loss on financial instruments, respectively.

Net gain on derivative financial instruments for the six months ended June 30, 2012 was NT\$773,019 thousand (US\$25,866 thousand), including realized settlement gain of NT\$591,731 thousand (US\$19,800 thousand) and valuation gain of NT\$181,288 thousand (US\$6,066 thousand), and were classified as exchange gain and valuation gain on financial instruments, respectively. Note 26 has more information.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ 733,446	\$ 738,745	\$ 24,720
Quoted stocks	591	55,657	1,862
Less: Current portion	<u>(733,446)</u>	<u>(794,213)</u>	<u>(26,576)</u>
	<u>\$ 591</u>	<u>\$ 189</u>	<u>\$ 6</u>

## 8. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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



## 9. NOTES AND ACCOUNTS RECEIVABLE

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

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Notes receivable	\$ -	\$ 3,463	\$ 116
Accounts receivable	71,062,848	67,959,950	2,274,049
Accounts receivable from related parties	<u>69</u>	<u>224,287</u>	<u>7,505</u>
	71,062,917	68,187,700	2,281,670
Less: Allowance for doubtful accounts	<u>(1,068,629)</u>	<u>(2,062,447)</u>	<u>(69,013)</u>
	<u>\$ 69,994,288</u>	<u>\$ 66,125,253</u>	<u>\$ 2,212,657</u>

## 10. OTHER CURRENT FINANCIAL ASSETS

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

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Other receivables	\$ 1,134,767	\$ 1,211,239	\$ 40,530
Interest receivable	32,441	53,235	1,781
Agency payments	55,567	27,603	924
Others	<u>3,032</u>	<u>3,604</u>	<u>120</u>
	<u>\$ 1,225,807</u>	<u>\$ 1,295,681</u>	<u>\$ 43,355</u>

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

## 11. INVENTORIES

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

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Finished goods	\$ 1,433,296	\$ 5,778,655	\$ 193,363
Work-in-process	5,007,424	1,037,575	34,719
Semi-finished goods	4,935,549	5,214,767	174,494
Raw materials	17,498,798	13,381,411	447,764
Goods in transit	<u>2,068,038</u>	<u>1,246,447</u>	<u>41,708</u>
	<u>\$ 30,943,105</u>	<u>\$ 26,658,855</u>	<u>\$ 892,048</u>

As of June 30, 2011 and 2012, the allowance for inventory devaluation was NT\$4,389,908 thousand and NT\$3,711,105 thousand (US\$124,180 thousand), respectively.

The write-down of inventories to their net realizable value amounting to NT\$1,563,560 thousand and NT\$286,674 thousand (US\$9,293 thousand) were recognized as cost of sales for the six months ended June 30, 2011 and 2012, respectively.

## 12. PREPAYMENTS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 4,296,291	\$ 6,288,574	\$ 210,426
Marketing	203,491	934,929	31,284
Prepayments to suppliers	267,557	826,949	29,671
Software and hardware maintenance	127,254	660,336	22,096
Net input VAT	199,449	477,762	15,987
Molding equipment	117,202	78,922	2,641
Rental	30,379	40,662	1,361
Insurance	9,161	24,128	807
Others	<u>116,359</u>	<u>110,281</u>	<u>3,690</u>
	<u>\$ 5,367,143</u>	<u>\$ 9,442,543</u>	<u>\$ 315,963</u>

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent in accordance with their nature. As of June 30, 2011 and 2012, noncurrent prepayments of NT\$3,360,537 thousand and NT\$6,762,061 thousand (US\$226,269 thousand), respectively, had been classified as other assets (Note 31 has more information).

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

Prepayments for others were primarily service and travel expenses.

## 13. HELD-TO-MATURITY FINANCIAL ASSETS

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

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

In 2010, 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%.

#### 14. FINANCIAL ASSETS CARRIED AT COST

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

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 16,731
Answer Online, Inc.	1,192	1,192	40
BandRich Inc.	15,861	15,861	531
SoundHound Inc.	57,597	66,564	2,227
GSUO Inc.	143,992	239,080	8,000
Felicis Ventures II LP	43,198	97,126	3,250
WI Harper Fund VII	25,919	67,241	2,250
NETQIN MOBILE Inc.	71,996	-	-
Luminous Optical Technology Co., Ltd.	183,000	183,000	6,123
OnLive, Inc.	1,151,940	1,195,400	40,000
KKBOX Inc.	287,985	298,850	10,000
TransLink Capital Partners II, L.P.	43,198	143,448	4,800
Shanghai F-road Commercial Co., Ltd.	158,151	164,683	5,511
Primavera Capital (Cayman) Fund L.L.P.	-	719,676	24,082
	<u>2,684,029</u>	<u>3,692,121</u>	<u>123,545</u>
Less: Accumulated impairment loss	<u>(1,192)</u>	<u>(1,192)</u>	<u>(40)</u>
	<u>\$ 2,682,837</u>	<u>\$ 3,690,929</u>	<u>\$ 123,505</u>

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. with NT\$1,192 thousand 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. In July 2010, HTC transferred this investment to "financial assets carried at cost" using book value of NT\$15,861 thousand.

In July 2009, through H.T.C. (B.V.I.) Corp. ("HTC BVI"), HTC made an investment in SoundHound Inc. As of June 30, 2012, HTC's investment in SoundHound Inc. had amounted to US\$2,227 thousand (NT\$66,564 thousand), and the ownership percentage was 4.50%.

In May 2010, through HTC BVI, HTC made an investment in GSUO Inc. As of June 30, 2012, HTC's investment in GSUO Inc. had amounted to US\$8,000 thousand (NT\$239,080 thousand), and the ownership percentage was 11.15%.

In September 2010, through HTC BVI, HTC made an investment in Felicis Ventures II LP. As of June 30, 2012, HTC's investment in Felicis Ventures II LP had amounted to US\$3,250 thousand (NT\$97,126 thousand).

In August 2010, through HTC BVI, HTC made an investment in WI Harper Fund VII. As of June 30, 2012, HTC's investment had amounted to US\$2,250 thousand (NT\$67,241 thousand).

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

In December 2010, through HTC Investment Corporation and HTC I Investment Corporation, HTC made an investment in Luminous Optical Technology Co., Ltd. As of June 30, 2012, HTC acquired 10.02% equity interest in Luminous Optical Technology Co., Ltd. for NT\$183,000 thousand.

In February 2011, through HTC BVI, HTC made an investment in OnLive, Inc. As of June 30, 2012, HTC's investment in OnLive, Inc. had amounted to US\$40,000 thousand (NT\$1,195,400 thousand), and the ownership percentage was 3.74%.

In March 2011, through HTC BVI, HTC made an investment in KKBOX Inc. As of June 30, 2012, HTC's investment in KKBOX Inc. had amounted to US\$10,000 thousand (NT\$298,850 thousand), and the ownership percentage was 11.11%.

In June 2011, through HTC BVI, HTC made an investment in TransLink Capital Partners II, L.P. As of June 30, 2012, HTC's investment in TransLink Capital Partners II, L.P. had amounted to US\$4,800 thousand (NT\$143,448 thousand).

In May 2011, through HTC HK Limited, HTC made an investment in Shanghai F-road Commercial Co. As of June 30, 2012, HTC's investment in Shanghai F-road Commercial Co., Ltd. had amounted to US\$5,500 thousand (NT\$164,683 thousand), and the ownership percentage was 17.73%.

In August 2011, through HTC Investment One (BVI) Corporation, HTC made an investment in Primavera Capital (Cayman) Fund L.L.P. As of June 30, 2012, HTC's investment had amounted to US\$24,082 thousand (NT\$719,676 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.

## 15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

	2011		2012		Ownership Percentage
	Carrying Value NT\$	Ownership Percentage	Carrying Value NT\$	US\$ (Note 3)	
Unquoted equity investments					
Huada Digital Corporation	\$ -	-	\$ 248,061	\$ 8,301	50.00
SYNCTV Corporation	-	-	61,313	2,051	20.00
	<u>\$ -</u>		<u>\$ 309,374</u>	<u>\$ 10,352</u>	

In December 2009, HTC acquired 100% equity interest in Huada Digital Corporation (“Huada”), of which main business activities were software services, for NT\$245,000 thousand and accounted for this investment by the equity method. In September 2011, HTC increased this investment by NT\$5,000 thousand. As of June 30, 2012, HTC’s investment in Huada had amounted to NT\$250,000 thousand (US\$8,365 thousand). In September 2011, the Fair Trade Commission Executive Yuan, R.O.C. (Taiwan) approved an investment by Chunghwa Telecom Co., Ltd. (“CHT”) in Huada and the registration of this investment was completed in October 2011. After CHT’s investment, 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 the Company 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 loss of NT\$2,628 thousand (US\$88 thousand) on Huada and a loss of NT\$9,441 thousand (US\$316 thousand) on SYNCTV for the six months ended June 30, 2012. The financial statements of equity-method investees had been examined by the Company’s independent auditors, except SYNCTV.

## 16. PROPERTIES

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

	2011	2012			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	US\$
	NT\$	NT\$	NT\$	NT\$	(Note 3)
Land	\$ 7,612,730	\$ 7,614,312	\$ -	\$ 7,614,312	\$ 254,787
Buildings and structures	4,590,457	11,710,032	1,110,731	10,599,301	354,670
Machinery and equipment	4,507,254	12,096,892	6,174,494	5,922,398	198,173
Computer equipment	209,551	848,171	480,719	367,452	12,296
Transportation equipment	4,496	7,691	4,304	3,387	113
Furniture and fixtures	120,012	444,636	226,529	218,107	7,298
Leased assets	787	6,744	4,981	1,763	59
Leasehold improvements	219,650	574,839	150,464	424,375	14,200
Prepayments for construction-in-progress and equipment-in-transit	<u>1,180,618</u>	<u>388,490</u>	<u>-</u>	<u>388,490</u>	<u>12,999</u>
	<u>\$ 18,445,555</u>	<u>\$ 33,691,807</u>	<u>\$ 8,152,222</u>	<u>\$ 25,539,585</u>	<u>\$ 854,595</u>

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

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

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

## 17. INTANGIBLE ASSETS

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

	Six Months Ended June 30, 2011				
	Patents	Goodwill	Deferred Pension Cost	Other	Total
	NT\$	NT\$	NT\$	NT\$	NT\$
<u>Cost</u>					
Balance, beginning of period	\$ 220,943	\$ 569,311	\$ 416	\$ 228,850	\$ 1,019,520
Additions					
Acquisition	2,174,400	-	-	-	2,174,400
The difference between the cost of investment and the Company's share in investees' net assets	-	1,345,642	-	-	1,345,642
Translation adjustment	-	114,216	-	16,508	130,724
Balance, end of period	<u>2,395,343</u>	<u>2,029,169</u>	<u>416</u>	<u>245,358</u>	<u>4,670,286</u>
<u>Accumulated amortization</u>					
Balance, beginning of period	12,362	-	-	-	12,362
Amortization	128,533	-	-	118,853	247,386
Translation adjustment	-	-	-	2,157	2,157
Balance, end of period	<u>140,895</u>	<u>-</u>	<u>-</u>	<u>121,010</u>	<u>261,905</u>
<u>Accumulated impairment losses</u>					
Balance, beginning of period	-	71,508	-	-	71,508
Impairment losses	-	-	-	-	-
Translation adjustment	-	(814)	-	-	(814)
Balance, end of period	<u>-</u>	<u>70,694</u>	<u>-</u>	<u>-</u>	<u>70,694</u>
Net book value, end of period	<u>\$ 2,254,448</u>	<u>\$ 1,958,475</u>	<u>\$ 416</u>	<u>\$ 124,348</u>	<u>\$ 4,337,687</u>
	Six Months Ended June 30, 2012				
	Patents	Goodwill	Deferred Pension Cost	Other	Total
	NT\$	NT\$	NT\$	NT\$	NT\$ US\$ (Note 3)
<u>Cost</u>					
Balance, beginning of period	\$ 11,608,540	\$ 10,905,878	\$ 342	\$ 911,962	\$ 23,426,722 \$ 783,896
Additions					
Acquisition	19,707	-	-	53,179	72,886 2,439
The difference between the cost of investment and the Company's share in investees' net assets	-	337,146	-	-	337,146 11,281
Reclassification	-	(5,717,960)	-	5,717,960	-
Translation adjustment	(118,371)	(103,318)	-	(110,108)	(331,797) (11,102)
Balance, end of period	<u>11,509,876</u>	<u>5,421,746</u>	<u>342</u>	<u>6,572,993</u>	<u>23,504,957</u> <u>786,514</u>
<u>Accumulated amortization</u>					
Balance, beginning period	456,442	-	-	316,178	772,620 25,853
Amortization	754,221	-	-	204,403	958,624 32,077
Translation adjustment	2,625	-	-	(13,389)	(10,764) (360)
Balance, end of period	<u>1,213,288</u>	<u>-</u>	<u>-</u>	<u>507,192</u>	<u>1,720,480</u> <u>57,570</u>
<u>Accumulated impairment losses</u>					
Balance, beginning period	-	93,314	-	-	93,314 3,122
Impairment losses	-	-	-	-	-
Translation adjustment	-	(1,214)	-	-	(1,214) (40)
Balance, end of period	<u>-</u>	<u>92,100</u>	<u>-</u>	<u>-</u>	<u>92,100</u> <u>3,082</u>
Net book value, end of period	<u>\$ 10,296,588</u>	<u>\$ 5,329,646</u>	<u>\$ 342</u>	<u>\$ 6,065,801</u>	<u>\$ 21,692,377</u> <u>\$ 725,862</u>

## 18. ACCRUED EXPENSES

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

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Marketing	\$ 29,158,509	\$ 23,558,865	\$ 788,318
Bonus to employees	8,107,066	8,458,522	283,036
Salaries and bonuses	4,580,334	4,663,732	156,056
Services	1,460,824	2,540,625	85,013
Research materials and molding expenses	1,706,805	2,006,591	67,144
Import, export and freight	1,610,567	912,444	30,532
Repairs, maintenance and sundry purchase	157,391	391,250	13,092
Insurance	204,074	196,785	6,585
Meals and welfare	196,249	196,503	6,575
Travel	82,526	191,031	6,392
Donation	437,800	149,164	4,991
Pension cost	110,790	131,167	4,389
Others	<u>476,256</u>	<u>256,453</u>	<u>8,581</u>
	<u>\$ 48,289,191</u>	<u>\$ 43,653,132</u>	<u>\$ 1,460,704</u>

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

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

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

In September 2009, HTC'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 HTC. In June 2012, HTC handed over the foregoing donated building to the HTC Cultural and Educational Foundation. The actual construction cost was NT\$218,636 thousand (US\$7,316 thousand). The difference between the estimated construction cost and the actual construction cost was NT\$836 thousand (US\$28 thousand) and was recognized as an adjustment on the donation to the HTC Cultural and Educational Foundation in 2012.

## 19. OTHER CURRENT LIABILITIES

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

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$</b>
			<b>(Note 3)</b>
Cash dividend payable	\$ 29,891,089	\$ 33,249,085	\$ 1,112,568
Warranty provision	12,415,994	12,784,252	427,781
Provisions for contingent loss on purchase orders	2,202,376	1,526,702	51,086
Other payable	368,571	664,905	22,249
Advance receipts	346,725	616,501	20,629
Agency receipts	338,312	416,617	13,941
Advance revenues	-	145,724	4,876
Others	<u>528,580</u>	<u>790,128</u>	<u>26,439</u>
	<u>\$ 46,091,647</u>	<u>\$ 50,193,914</u>	<u>\$ 1,679,569</u>

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

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

Other payables were payables for patents, and agreed installments payable to the original stockholders of subsidiaries.

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

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

## 20. PENSION PLAN

The pension plan under the Labor Pension Act (the “LPA”) is a defined contribution plan. Based on the LPA, HTC and Communication Global Certification Inc. (“CGC”) makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$154,141 thousand and NT\$211,117 thousand (US\$7,064 thousand) for the six months ended June 30, 2011 and 2012, respectively.

Based on the defined benefit plan under the Labor Standards Law (the “LSL”), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. HTC and CGC contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee’s name. HTC and CGC recognized pension costs of NT\$2,169 thousand and NT\$2,093 thousand (US\$70 thousand) for the six months ended June 30, 2011 and 2012, respectively.



H.T.C. (B.V.I.) Corp., HTC Investment Corporation, HTC I Investment Corporation, High Tech Computer Asia Pacific Pte. Ltd., HTC Investment One (BVI) Corporation, HTC Holding Cooperatief U.A. and HTC America Holding Inc. have no pension plans.

Under their respective local government regulations, other subsidiaries have defined contribution pension plans covering all eligible employees. The pension fund contributions were NT\$76,888 thousand and NT\$125,575 thousand (US\$4,202 thousand) for the six months ended June 30, 2011 and 2012, respectively.

## **21. 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 June 30, 2012 increased to NT\$8,520,521 thousand (US\$285,110 thousand), divided into 852,052 thousand common shares at NT\$10.00 (US\$0.33) par value.

### **Global Depositary Receipts**

In November 2003, 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. 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 June 30, 2012, there were 7,141.5 thousand units of GDRs redeemed, representing 28,566.1 thousand common shares, and the outstanding GDRs represented 7,494.4 thousand common shares or 0.90% of 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 the Company's paid-in capital. Also, the capital surplus from long-term investments may not be used for any purpose.

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

The additional paid-in capital was NT\$10,777,623 thousand as of January 1, 2011. In June 2011, the bonus to employees of NT\$8,491,704 thousand for 2010 was approved in the stockholders' meeting. Of the approved bonus, NT\$4,245,851 thousand was in the form of common stock, consisting of 4,006 thousand common shares at their fair value, which were distributed in 2011. The difference between par value and fair value of NT\$4,205,796 thousand was accounted for as additional paid-in capital in 2011. In December 2011, the retirement of treasury stock caused a decrease of NT\$173,811 thousand in additional paid-in capital. As a result, the additional paid-in capital as of June 30, 2012 was NT\$14,809,608 thousand (US\$495,553 thousand).

### Treasury stock transactions and expired stock options

In June 2011, the Company resolved to transfer treasury shares to employees. In 2011, the number of shares for transfer to employees was 6,000 thousand, with 5,875 thousand shares exercised. Based on the fair value at the grant date, NT\$1,750,767 thousand was accounted for as capital surplus - treasury stock transactions, and NT\$37,503 thousand for the unexercised 125 thousand shares was accounted for as capital surplus - expired stock options. Also, in December 2011, the retirement of treasury stock caused decreases in treasury stock transactions and expired stock options of NT\$20,309 thousand and NT\$435 thousand, respectively. As a result, capital surplus from treasury stock transactions and expired stock options as of June 30, 2012 were NT\$1,730,458 thousand (US\$57,904 thousand) and NT\$37,068 thousand (US\$1,241 thousand), respectively.

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

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

### Long-term equity investments

As of January 1, 2011, the capital surplus from long-term equity-method investments was NT\$18,411 thousand. When the Company did not subscribe for the new shares issued by an equity-method investee, Huada Digital Corporation, in September 2011, the Company's total investment carrying value and capital surplus decreased by NT\$374 thousand each in 2011. As a result, the capital surplus from long-term equity-method investments as of June 30, 2012 was NT\$18,037 thousand (US\$604 thousand).

### Merger

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

### Others

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

## Appropriation of Retained Earnings and Dividend Policy

Under the Company's Articles of Incorporation, if 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 the Company's authorized capital.
- d. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above subparagraphs a. to c.
- e. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above subparagraphs a. to c, or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include employees serving with affiliates who meet specific requirements. Such specific requirements shall be prescribed by the board of directors.
- f. For any remainder, the board of directors shall propose allocation ratios based on the dividend policy set forth in the Company's Article and propose them at the shareholders' meeting.

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

As part of a high-technology industry and as a growing enterprise, 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 appropriations of earnings for 2010 and 2011 had been approved in the shareholders' meetings on June 15, 2011 and June 12, 2012, respectively. The appropriations and dividends per share were as follows:

	For Year 2010		For Year 2011			
	Appropriation of Earnings	Dividends Per Share	Appropriation of Earnings		Dividends Per Share	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Legal reserve	\$ -	\$ -	\$ 6,197,580	\$ 207,381	\$ -	\$ -
Special reserve	580,856	-	(580,856)	(19,436)	-	-
Cash dividends	29,891,089	37.00	33,249,085	1,112,568	40.00	1.34
Stock dividends	403,934	0.50	-	-	-	-

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

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

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

The employee bonus for six months ended June 30, 2011 and 2012 should be appropriated at 10% and 8.4%, respectively, of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

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

## 22. 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 and completed capital amendment registration in January 2012.

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 (bought back 100 thousand shares in 2011 and 6,814 thousand shares in 2012) for NT\$3,750,056 thousand (US\$125,483 thousand) during the repurchase period. Other treasury stock information for the six months ended 30, 2011 and 2012 were as follows:

(In Thousands of Shares)

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

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of the Company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par, and paid-in capital reserve. In addition, the Company should not pledge its treasury shares nor should exercise rights to dividends distribution and to vote.

## 23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

Function Expense Item	2011			2012					
	NT\$			NT\$			US\$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	\$ 3,506,501	\$11,315,925	\$14,822,426	\$ 3,156,588	\$ 9,015,908	\$12,172,496	\$ 105,624	\$ 301,687	\$ 407,311
Salary	2,954,840	10,594,892	13,549,732	2,481,324	7,815,486	10,296,810	83,029	261,519	344,548
Insurance	166,483	296,806	463,289	228,296	418,206	646,502	7,639	13,994	21,633
Pension cost	95,839	137,359	233,198	123,992	214,793	338,785	4,149	7,187	11,336
Other	289,339	286,868	576,207	322,976	567,423	890,399	10,807	18,987	29,794
Depreciation	408,215	240,386	648,601	622,366	406,717	1,029,083	20,825	13,610	34,435
Amortization	137,969	140,152	278,121	266,983	739,473	1,006,456	8,934	24,744	33,678

## 24. INCOME TAX

Provision for income tax expense (benefit) for the six months ended June 30, 2011, income tax payable, income tax receivables and deferred tax assets (liabilities) as of June 30, 2011, were as follows:

	2011			
	Income Tax Expense (Benefit) NT\$	Income Tax Payable NT\$	Income Tax Receivable NT\$	Deferred Tax Assets (Liabilities) NT\$
HTC Corporation	\$ 4,077,511	\$ 5,922,228	\$ -	\$ 5,105,628
Communication Global				
Certification Inc.	4,119	4,213	-	1,959
HTC Investment Corporation	88	32	-	-
HTC I Investment Corporation	69	18	-	-
Huada Digital Corporation	105	36	-	-
High Tech Computer Asia Pacific				
Pte. Ltd.	6,858	4,604	-	38
HTC EUROPE CO., LTD.	88,839	133,990	-	8,822
Exedea Inc.	670	-	1,473	-
HTC NIPPON Corporation	2,050	1,241	-	-
HTC BRASIL	-	-	10	2,735
One & Company Design, Inc.	3,082	-	5,915	3,801
HTC Communication Co., Ltd.	(17,618)	198,854	-	258,969
HTC Corporation (Shanghai WGQ)	1,263	473	-	-
HTC Belgium BAVA/SPRL	399	10,130	-	-
HTC HK, Limited	(54)	3,166	-	-
High Tech Computer (H.K.)				
Limited	2,576	-	-	-
HTC (Australia and New Zealand)				
Pty. Ltd.	5,438	9,037	-	(2,892)
HTC India Private Limited	3,961	-	1,793	-
HTC (Thailand) Limited	1,295	1,274	-	-
HTC Electronics (Shanghai) Co.,				
Ltd.	98,298	101,821	-	65,194
HTC Netherlands B.V.	871	1,079	-	-
HTC FRANCE CORPORATION	(356)	790	-	(84,403)
HTC Nordic ApS.	3,387	3,601	-	(85)
HTC Italia SRL	3,631	-	-	-
HTC Germany GmbH.	4,028	1,953	-	-
HTC Iberia S.L.	3,081	3,480	-	-
HTC Poland sp. z o.o.	17	-	-	2,126
ABAXIA SAS	6,300	-	-	-
Saffron Digital Inc.	147	8,949	-	(122)
HTC America Inc.	344,490	76,189	-	56,589
HTC America Innovation Inc.	13,598	14,920	-	13,622
HTC Malaysia Sdn. Bhd.	1,010	182	-	269
HTC Innovation Limited	1,593	1,058	-	-
HTC South Eastern Europe Limited				
liability Company	392	382	-	-
	<u>\$ 4,661,138</u>	<u>\$ 6,503,700</u>	<u>\$ 9,191</u>	<u>\$ 5,432,250</u>

Provision for income tax expense (benefit) for the six months ended June 30, 2012, income tax payable, income tax receivables and deferred tax assets (liabilities) as of June 30, 2012, were as follows:

	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	\$ 1,191,470	\$ 39,868	\$ 810,402	\$ 27,117	\$ -	\$ -	\$ 4,635,270	\$ 155,104
Communication Global Certification Inc.	13,387	448	11,933	399	-	-	241	8
HTC Investment Corporation	151	5	41	1	-	-	-	-
HTC I Investment Corporation	101	3	4	-	-	-	-	-
High Tech Computer Asia Pacific Pte. Ltd.	2,798	94	5,379	180	-	-	38	1
HTC America Inc.	151,954	5,085	-	-	62,912	2,105	145,606	4,872
HTC EUROPE CO., LTD.	55,668	1,863	102,303	3,423	-	-	9,447	316
Exedea Inc.	15	1	-	-	135	5	-	-
HTC NIPPON Corporation	2,247	75	17,745	594	-	-	16,460	551
HTC America Holding Inc.	289,286	9,680	-	-	-	-	(234,895)	(7,860)
HTC America Innovation Inc.	25,078	839	-	-	53,898	1,804	56,387	1,887
One & Company Design, Inc.	4,862	163	-	-	24,833	831	17,572	588
HTC Corporation (Shanghai WGQ)	1,775	59	938	31	-	-	-	-
HTC Belgium BAVA/SPRL	492	16	6,318	211	-	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	6,156	206	18,409	616	-	-	(304)	(10)
HTC HK, Limited	1,672	56	6,071	203	-	-	-	-
HTC India Private Limited	3,667	123	819	27	-	-	-	-
HTC (Thailand) Limited	1,315	44	1,325	45	-	-	-	-
HTC Netherlands B.V.	566	19	2,142	72	-	-	-	-
HTC Italia SRL.	3,970	133	2,464	82	-	-	-	-
HTC BRASIL	1,009	34	-	-	484	16	1,394	46
HTC Communication Co., Ltd.	97,335	3,257	950,289	31,798	-	-	1,209,985	40,488
HTC Electronics (Shanghai) Co., Ltd.	22,115	740	69,953	2,341	-	-	74,234	2,484
HTC Malaysia Sdn. Bhd.	724	24	450	15	-	-	296	10
HTC Innovation Limited	(469)	(16)	136	5	-	-	-	-
HTC Poland sp. z o.o.	350	12	1	-	-	-	1,435	48
HTC Iberia S.L.	971	32	4,060	136	-	-	-	-
HTC Germany GmbH.	3,403	114	6,950	233	-	-	-	-
HTC Nordic ApS.	1,745	58	1,958	66	-	-	(34)	(1)
HTC Luxembourg S.a.r.l.	5,025	168	4,975	167	-	-	-	-
HTC FRANCE CORPORATION	344	12	-	-	-	-	-	-
ABAXIA SAS	2,433	81	-	-	-	-	-	-
Saffron Digital Inc.	9,513	318	9,521	319	-	-	60	2
HTC Norway AS	77	3	121	4	-	-	-	-
Dashwire, Inc.	24	1	89	3	-	-	-	-
HTC Communication Sweden AB	141	5	71	2	-	-	-	-
HTC Communication Canada, Ltd.	1,842	62	1,821	61	-	-	-	-
Inquisitive Minds, Inc.	24	1	-	-	-	-	-	-
Beats Electronics, LLC	25,695	860	-	-	-	-	-	-
HTC Communication Technologies (SH)	17,825	596	17,965	601	-	-	-	-
FunStream Corporation	-	-	-	-	4	-	-	-
PT. High Tech Computer Indonesia	1,976	66	1,990	67	-	-	-	-
HTC South Eastern Europe Limited liability Company	(491)	(16)	-	-	218	7	-	-
	<u>\$ 1,948,241</u>	<u>\$ 65,192</u>	<u>\$ 2,056,643</u>	<u>\$ 68,819</u>	<u>\$ 142,484</u>	<u>\$ 4,768</u>	<u>\$ 5,933,192</u>	<u>\$ 198,534</u>

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

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$</b>
			<b>(Note 3)</b>
Temporary differences			
Provision for loss on decline in value of inventory	\$ 741,773	\$ 647,108	\$ 21,653
Unrealized warranty expenses	2,075,178	2,196,809	73,509
Unrealized royalties	3,930,929	5,301,246	177,388
Unrealized marketing expenses	4,717,079	4,202,284	140,615
Unrealized contingent losses of purchase orders	374,404	259,539	8,685
Unrealized valuation loss on financial instruments	26,500	-	-
Unrealized bad-debt expenses	63,783	229,409	7,676
Unrealized research materials and molding expenses	105,513	163,785	5,481
Unrealized sales allowance	254,031	289,285	9,680
Unrealized exchange loss	-	62,019	2,075
Unrealized salaries and welfare	242,770	348,576	11,664
Others	171,213	268,100	8,971
Prior years' loss carryforwards	1,598	239,201	8,004
Tax credit carryforwards	<u>3,144,749</u>	<u>2,338,236</u>	<u>78,241</u>
Total deferred tax assets	15,849,520	16,545,597	553,642
Less: Valuation allowance	<u>(10,171,522)</u>	<u>(10,148,930)</u>	<u>(339,599)</u>
Total deferred tax assets, net	5,677,998	6,396,667	214,043
Deferred tax liabilities			
Realized pension cost	(29,472)	(33,196)	(1,111)
Unrealized valuation gain on financial instruments	-	(31,180)	(1,043)
Unrealized gain on investment	-	(347,446)	(11,626)
Depreciation of fixed assets and taxation difference	-	(51,653)	(1,729)
Unrealized exchange gain, net	<u>(216,276)</u>	<u>-</u>	<u>-</u>
Deferred tax liabilities offset against deferred tax assets, net	5,432,250	5,933,192	198,534
Less: Current portion	<u>(1,895,209)</u>	<u>(2,561,478)</u>	<u>(85,711)</u>
Deferred tax assets - noncurrent	<u>\$ 3,537,041</u>	<u>\$ 3,371,714</u>	<u>\$ 112,823</u>

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

	<b>2011</b>	<b>2012</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$</b>
			<b>(Note 3)</b>
Current income tax	\$ 6,637,613	\$ 1,971,630	\$ 65,974
Less: Increase in deferred income tax assets	(2,014,566)	(11,475)	(384)
Add (less): Underestimation (overestimation) of prior year's income tax	<u>38,091</u>	<u>(11,914)</u>	<u>(398)</u>
Income tax	<u>\$ 4,661,138</u>	<u>\$ 1,948,241</u>	<u>\$ 65,192</u>



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

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

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

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

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

As of June 30, 2012, the loss carryforwards of HTC BRASIL that gave rise to deferred income tax assets in the Federative Republic of Brazil were NT\$980 thousand (US\$33 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 June 30, 2012, the loss carryforwards of HTC America Innovation Inc., HTC America Content Services, Inc., Saffron Digital Inc., Dashwire, Inc. and Inquisitive Minds, Inc. that gave rise to deferred income tax assets in the United States were NT\$238,221 thousand (US\$7,971 thousand), and could be carried forward for 20 years.

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

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

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

HTC's income tax returns through 2008 had been examined by the tax authorities. The income tax returns of Communication Global Certification Inc., HTC Investment Corporation and HTC I Investment Corporation for the years through 2009 have been examined and approved by the tax authority.

## 25. EARNINGS PER SHARE

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

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

	2011				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 36,434,476	\$ 32,356,965	848,615	<u>\$ 42.93</u>	<u>\$ 38.13</u>
Bonus to employees	-	-	4,363		
Diluted EPS	<u>\$ 36,434,476</u>	<u>\$ 32,356,965</u>	<u>852,978</u>	<u>\$ 42.71</u>	<u>\$ 37.93</u>

  

	2012				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 13,060,733	\$ 11,869,263	832,742	<u>\$ 15.68</u>	<u>\$ 14.25</u>
Bonus to employees	-	-	3,490		
Diluted EPS	<u>\$ 13,060,733</u>	<u>\$ 11,869,263</u>	<u>836,232</u>	<u>\$ 15.62</u>	<u>\$ 14.19</u>

  

	2012				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
Basic EPS	\$ 437,032	\$ 397,164	832,742	<u>\$ 0.52</u>	<u>\$ 0.48</u>
Bonus to employees	-	-	3,490		
Diluted EPS	<u>\$ 437,032</u>	<u>\$ 397,164</u>	<u>836,232</u>	<u>\$ 0.52</u>	<u>\$ 0.47</u>

## 26. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

#### a. Non-derivative financial instruments

	June 30					
	2011		2012			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value		
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Assets						
Available-for-sale financial assets - current	\$ 733,446	\$ 733,446	\$ 794,213	\$ 26,576	\$ 794,213	\$ 26,576
Available-for-sale financial assets - noncurrent	591	591	189	6	189	6
Held-to-maturity financial assets - noncurrent	206,285	205,457	202,922	6,790	202,404	6,773
Financial assets carried at cost - noncurrent	2,682,837	2,682,837	3,690,929	123,505	3,690,929	123,505

#### b. Derivative financial instruments

	June 30					
	2011		2012			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value		
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ 181,288	\$ 6,066	\$ 181,288	\$ 6,066
Liabilities						
Financial liabilities at fair value through profit or loss - current	155,880	155,880	-	-	-	-
Hedging derivative liabilities - current	-	-	15,871	531	15,871	531

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

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

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

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

Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

### 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		
	June 30			June 30		
	2011	2012		2011	2012	
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
<b>Assets</b>						
Financial assets at fair value						
through profit or loss - current	\$ -	\$ -	\$ -	\$ -	\$ 181,288	\$ 6,066
Available-for-sale financial						
assets - current	733,446	794,213	26,576	-	-	-
Available-for-sale financial						
assets - noncurrent	591	189	6	-	-	-
Held-to-maturity financial assets						
- noncurrent	205,457	202,404	6,773	-	-	-
Financial assets carried at cost -						
noncurrent	-	-	-	2,682,837	3,690,929	123,505
<b>Liabilities</b>						
Financial liabilities at fair value						
through profit or loss - current	-	-	-	155,880	-	-
Hedging derivative liabilities -						
current	-	-	-	-	15,871	531

The Company recognized unrealized gains of NT\$1,551 thousand and NT\$29,587 thousand (US\$990 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2011 and 2012, respectively.

As of June 30, 2011 and 2012, financial assets exposed to fair value interest rate risk amounted to NT\$206,285 thousand and NT\$202,922 thousand (US\$6,790 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$103,563,843 thousand and NT\$51,145,435 thousand (US\$1,711,408 thousand), respectively.

### Financial Risks

#### a. Market risk

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

#### b. Credit risk

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

#### c. Liquidity risk

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

## 27. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of HTC's chairperson
VIA Technologies, Inc.	Same chairperson as HTC's
Chander Electronics Corp.	Same chairperson as HTC's
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

Related Party	Six Months Ended June 30			
	2011		2012	
	Amount	% to Total	Amount	% to Total
		Net Purchases		Net Purchases
	NT\$		NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$ 172,560	-	\$ -	-

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

### Sales and Services Provided

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount	% to Total Revenues	Amount		% to Total Revenues
			NT\$	US\$ (Note 3)	
Faith Hope & Love Limited	\$ -	-	\$2,235,584	\$74,806	1
Employees' Welfare Committee	52,471	-	219,735	7,353	-
Others	<u>1,574</u>	<u>-</u>	<u>3,638</u>	<u>122</u>	<u>-</u>
	<u>\$ 54,045</u>	<u>-</u>	<u>\$2,458,957</u>	<u>\$82,281</u>	<u>1</u>

The selling prices for products sold to related parties were similar to those for sales to third parties, except those for 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

Related Party	June 30				
	2011		2012		
	Amount	% to Total Notes and Accounts Receivable	Amount		% to Total Notes and Accounts Receivable
			NT\$	US\$ (Note 3)	
Faith Hope & Love Limited	\$ -	-	\$ 224,138	\$ 7,500	-
Others	<u>69</u>	<u>-</u>	<u>149</u>	<u>5</u>	<u>-</u>
	<u>\$ 69</u>	<u>-</u>	<u>\$ 224,287</u>	<u>\$ 7,505</u>	<u>-</u>

## Accounts Payable

Related Party	June 30				
	2011		2012		
	Amount	% to Total Notes and Accounts Payable	Amount		% to Total Notes and Accounts Payable
			NT\$	US\$ (Note 3)	
Chander Electronics Corp.	<u>\$ 108,377</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

## Other Receivable

Related Party	June 30				
	2011		2012		
	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
			NT\$	US\$ (Note 3)	
CATCHPLAY, INC.	<u>\$ 137</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

## Accrued Expenses

Related Party	June 30				
	2011		2012		
	Amount	% to Total Other Payables	Amount		% to Total Other Payables
			NT\$	US\$ (Note 3)	
Way-Lien Technology Inc.	\$ 600	-	\$ 610	\$ 20	-
HTC Cultural and Educational Foundation	<u>217,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 218,400</u>	<u>-</u>	<u>\$ 610</u>	<u>\$ 20</u>	<u>-</u>

Accrued expenses were consulting expenses. Note 18 has more information about HTC Cultural and Educational Foundation.

## Other Payables to Related Parties

Related Party	June 30				
	2011		2012		
	Amount	% to Total Other Payables	Amount		% to Total Other Payables
			NT\$	US\$ (Note 3)	
Chander Electronics Corp.	<u>\$ 198</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

## Service Fees

Related Party	Six Months Ended June 30				
	2011		2012		
	Amount	% to Warranty Expenses	Amount		% to Warranty Expenses
			NT\$	US\$ (Note 3)	
Way-Lien Technology Inc.	<u>\$ 1,200</u>	<u>-</u>	<u>\$ 1,200</u>	<u>\$ 40</u>	<u>-</u>

Service fees resulted from business consulting service.

## Leasing - Lessee

### Operating expenses - rental expenses

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

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

## Donation Expenses

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

Note 18 has more information about HTC Cultural and Educational Foundation.

## Property Transaction

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

## Patent Litigation

Note 32 has more information.

## 28. PLEDGED ASSETS

As of June 30, 2011 and 2012, the Company had provided time deposits of NT\$72,304 thousand and NT\$402,850 thousand (US\$13,480 thousand), respectively, as collateral for outsourcing agreement, rental deposits and to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

## 29. COMMITMENTS AND CONTINGENCIES

As of June 30, 2012, unused letters of credit amounted to EUR95 thousand, US\$2,223 thousand and JPY22,288 thousand.



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

### 30. SUBSEQUENT EVENTS

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

On July 19, 2012, HTC’s board of directors passed a resolution to sell back 25% of the shareholdings in Beats held by HTC America Holding, Inc. to the founding members of Beats for US\$150,000 thousand. After the sale, HTC will indirectly own 25.14% interests in Beats. This sale will terminate the agreement in Note 29 section 2, namely the put right and call right between HTC and the founding members of Beats will no longer be in effect.

### 31. SIGNIFICANT CONTRACTS

#### Patent Agreement

The Company specializes in research, design, manufacture and sales of smart handheld devices. To enhance the quality of its products and manufacturing technologies, the Company has patent agreements as follows:

Contractor	Contract Term	Description
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated	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.

(Continued)

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

(Concluded)

## 32. OTHER EVENT

### Lawsuit

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

In October 2010, 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 considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against the Company are very unlikely.

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

As of July 31, 2012, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

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

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

In November 2011, the Company acquired the business operation and ownership of patent portfolio of S3 Graphics Co., Ltd. ("S3 Graphics"). In July 2011, Apple filed another ITC investigation and a companion district court case in Delaware against the Company alleging patent infringement (ITC No. 337-TA-797). In August 2011, the Company filed another ITC investigation and a companion district court case in Delaware against Apple alleging patent infringement (ITC No. 337-TA-808). On September 22, 2011, S3 Graphics filed another ITC investigation (ITC No. 337-TA-813) and a companion district court case in Delaware against Apple alleging infringement of its patents. Regarding the patents asserted in ITC No. 337-TA-808, Apple filed an antitrust lawsuit in the United States District Court for the Eastern District of Virginia in June 2012.

As of July 31, 2012, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

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

As of July 31, 2012, the date of the accompanying independent auditors' report, there had been no further hearing nor had a court decision been made.

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

As of July 31, 2012, the date of the accompanying independent auditors’ report, there had been no further hearing nor had a court decision been made.

- e. The Company had shared lawsuit-related costs on the basis of common benefits and agreements between its vendors and customers. For the six months ended June 30, 2012, companies that the Company shared lawsuit-related costs with included VIA Technologies Inc. and its subsidiaries.
- f. On the basis of its past experience and consultations with its legal counsel, the Company has evaluated the possible effects of the above lawsuits on its business and financial condition as well as on relevant matters, and recognized its estimable cost.

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

	June 30			
	2011		2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 2,522,409	28.80	\$ 3,321,974	29.89
EUR	607,071	41.73	516,456	37.56
GBP	72,581	46.29	30,293	46.71
JPY	120,556	0.3582	8,725,523	0.3754
RMB	810,859	4.4557	2,426,599	4.6941
Nonmonetary items				
USD	68,900	28.80	101,965	29.89
Investments accounted for by the equity method				
USD	-	-	2,052	29.89
<u>Financial liabilities</u>				
Monetary items				
USD	3,364,936	28.80	3,348,736	29.89
EUR	590,023	41.73	557,819	37.56
GBP	90,520	46.29	39,081	46.71
JPY	457,673	0.3582	18,047,324	0.3754
RMB	507,608	4.4557	3,276,862	4.6941

### 33. SEGMENT DISCLOSURES

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Under SFAS No. 41, 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 and the operating revenue made up more than 90 percent of the total revenue.

Selected financial information was as follows:

#### Geographical Areas

The Company's noncurrent assets (other than financial instruments, deferred income tax assets and post-employment benefit assets) located in Taiwan and in an individual foreign country as of June 30, 2011 and 2012, and revenues from Taiwan and from an individual foreign country account for 10 percent or more for the six months ended June 30, 2011 and 2012 were as follows:

	Revenues			Non-current Assets		
	Six Months Ended June 30			June 30		
	2011	2012		2011	2012	
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
Taiwan	\$ 9,358,291	\$ 13,279,926	\$ 444,368	\$ 20,349,683	\$ 29,373,114	\$ 982,872
Country Y	114,177,878	30,956,650	1,035,859	236,782	10,425,473	348,853
Country Z	6,329,892	18,624,898	623,219	3,884,082	5,243,027	175,440
Others	<u>98,688,544</u>	<u>95,968,983</u>	<u>3,211,276</u>	<u>2,655,067</u>	<u>12,157,610</u>	<u>406,813</u>
	<u>\$ 228,554,605</u>	<u>\$ 158,830,457</u>	<u>\$ 5,314,722</u>	<u>\$ 27,125,614</u>	<u>\$ 57,199,224</u>	<u>\$ 1,913,978</u>

#### Major Customers

Revenues from transactions with a single external customer amounted to 10 percent or more for the six months ended June 30, 2011 and 2012 were as follows:

Customer	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
A	\$ 13,084,298	\$ 15,134,100	\$ 506,411
B	24,168,811	12,589,354	421,260
C	43,291,072	10,165,893	340,167
D	<u>32,284,025</u>	<u>2,514,466</u>	<u>84,138</u>
	<u>\$ 112,828,206</u>	<u>\$ 40,403,813</u>	<u>\$ 1,351,976</u>

### 34. 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-disclosed the relevant information on the adoption of the International Financial Reporting Standards ("IFRSs") as follows:

- 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 June 30, 2012 were as follows:

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

- b. As of June 30, 2012, significant differences identified by the Company that may arise between current accounting policies under R.O.C. GAAP and the ones under IFRSs that will be used in the preparation of financial statements in the future are set forth below:

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

		The Effect of the Transition from ROC GAAP to IFRSs					
ROC GAAP		Measurement or	Presentation	IFRSs		Item	Note
Item	Amount	Recognition Inconsistency	Difference	Amount			
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)		
<u>Assets</u>							
Current assets							
Cash and cash equivalents	\$ 87,501,508	\$ -	\$ (25,474,750)	\$ 62,026,758	\$ 2,075,515	Cash and cash equivalents	(1)
Financial assets at fair value through profit or loss - current	256,868	-	-	256,868	8,595	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	736,031	-	-	736,031	24,629	Available-for-sale financial assets - current	
Notes receivable, net	755,450	-	-	755,450	25,279	Notes receivable, net	
Accounts receivable, net	63,964,341	-	-	63,964,341	2,140,349	Accounts receivable, net	
Other financial assets - current	1,405,911	-	25,474,750	26,880,661	899,470	Other receivables	(1)
Inventories	28,430,590	-	-	28,430,590	951,333	Inventories	
Prepayments	7,075,231	-	-	7,075,231	236,748	Prepayments	
Deferred income tax assets - current	2,246,196	-	(2,246,196)	-	-	-	(2)
Other current assets	1,055,480	-	-	1,055,480	35,318	Other current assets	
Total current assets	193,427,606	-	(2,246,196)	191,181,410	6,397,236		
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	6,846	Held-to-maturity financial assets - noncurrent	
Financial assets carried at cost - noncurrent	3,408,654	-	-	3,408,654	114,059	Financial assets carried at cost - noncurrent	
Investments accounted for by the equity method	71,732	-	-	71,732	2,400	Investments accounted for by the equity method	
Total long-term investments	3,685,262	-	-	3,685,262	123,315		
Properties	21,512,478	-	-	21,512,478	719,842	Property, plant and equipment	
Intangible assets							
Patents	11,152,098	-	-	11,152,098	373,167	Patents	
Goodwill	10,812,564	-	-	10,812,564	361,806	Goodwill	
Deferred pension cost	342	(342)	-	-	-	-	(4)
Other intangible assets	595,784	-	-	595,784	19,936	Other intangible assets	
Total intangible assets	22,560,788	(342)	-	22,560,446	754,909		
Other assets							
Refundable deposits	185,306	-	-	185,306	6,201	Refundable deposits	
Deferred charges	763,516	-	-	763,516	25,548	Deferred charges	
Deferred income tax assets - noncurrent	3,675,521	58,000	2,246,196	5,979,717	200,091	Deferred income tax assets	(2), (3)
Restricted assets - noncurrent	68,700	-	-	68,700	2,299	Restricted assets - noncurrent	
Other	8,712,949	(83,052)	-	8,629,897	288,770	Other noncurrent assets	(4)
Total other assets	13,405,992	(25,052)	2,246,196	15,627,136	522,909		
Total	\$ 254,592,126	\$ (25,394)	\$ -	\$ 254,566,732	\$ 8,518,211		
<u>Liabilities and stockholders' equity</u>							
Current liabilities							
Notes and accounts payable	\$ 77,268,293	\$ -	\$ (28,339,676)	\$ 48,928,617	\$ 1,637,230	Notes and accounts payable	(5)
Income tax payable	10,570,682	-	-	10,570,682	353,712	Current tax liabilities	
Accrued expenses	46,171,290	99,321	-	46,270,611	1,548,289	Accrued expenses	(6)
Payable for purchase of equipment	812,240	-	-	812,240	27,179	Payable for purchase of equipment	
-	-	-	43,472,951	43,472,951	1,454,675	Provisions - current	(5)
Other current liabilities	17,307,355	-	(15,133,275)	2,174,080	72,748	Other current liabilities	(5)
Total current liabilities	152,129,860	99,321	-	152,229,181	5,093,833		
Other liabilities							
Guarantee deposits received	42,946	-	-	42,946	1,437	Guarantee deposits received	
Total liabilities	152,172,806	99,321	-	152,272,127	5,095,270		
Stockholders' equity							
Common stock	8,520,521	-	-	8,520,521	285,110	Common stock	
Capital surplus						Capital surplus	
Additional paid-in capital - issuance of shares in excess of par	14,809,608	-	-	14,809,608	495,553	Additional paid-in capital - issuance of shares in excess of par	
Treasury stock transactions	1,730,458	-	-	1,730,458	57,904	Treasury stock transactions	
Long-term equity investments	18,037	(18,037)	-	-	-	-	(7)
Merger	24,423	-	-	24,423	817	Merger	
Expired stock options	37,068	-	-	37,068	1,241	Expired stock options	

(Continued)

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs		IFRSs		Item	Note
		Measurement or Recognition Inconsistency	Presentation Difference				
Item	Amount			Amount			
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)		
Retained earnings							
Legal reserve	\$ 10,273,674	\$ -	\$ -	\$ 10,273,674	\$ 343,774	Legal reserve	
Special reserve	580,856	-	-	580,856	19,436	Special reserve	
Accumulated earnings	75,762,315	(74,837)	-	75,687,478	2,532,624	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	98	Unrealized valuation gain on financial instruments	
Treasury stock	(10,365,144)	-	-	(10,365,144)	(346,834)	Treasury stock	
Equity attributable to stockholders of the parent	101,426,596	(124,715)	-	101,301,881	3,389,723		
Minority interest	992,724	-	-	992,724	33,218	Non-controlling interests	
Total stockholders' equity	102,419,320	(124,715)	-	102,294,605	3,422,941		
Total	\$254,592,126	\$ (25,394)	\$ -	\$254,566,732	\$ 8,518,211		

(Concluded)

## 2) Reconciliation of the balance sheet as of June 30, 2012:

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs		IFRSs		Item	Note
		Measurement or Recognition Inconsistency	Presentation Difference				
Item	Amount			Amount			
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)		
<u>Assets</u>							
Current assets							
Cash and cash equivalents	\$ 81,246,878	\$ -	\$ (25,725,760)	\$ 55,521,118	\$ 1,857,825	Cash and cash equivalents	(1)
Financial assets at fair value through profit or loss - current	181,288	-	-	181,288	6,066	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	794,213	-	-	794,213	26,576	Available-for-sale financial assets - current	
Accounts receivable, net	66,125,253	-	-	66,125,253	2,212,657	Accounts receivable, net	
Restricted assets - current	365,166	-	-	365,166	12,219		
Other financial assets - current	1,295,681	-	25,725,760	27,021,441	904,181	Other receivables	(1)
Inventories	26,658,855	-	-	26,658,855	892,048	Inventories	
Prepayments	9,442,543	-	-	9,442,543	315,963	Prepayments	
Deferred income tax assets - current	2,561,478	-	(2,561,478)	-	-	-	(2)
Other current assets	859,649	-	-	859,649	28,765	Other current assets	
Total current assets	189,531,004	-	(2,561,478)	186,969,526	6,256,300		
Long-term investments							
Available-for-sale financial assets - noncurrent	189	-	-	189	6	Available-for-sale financial assets - noncurrent	
Held-to-maturity financial assets - noncurrent	202,922	-	-	202,922	6,790	Held-to-maturity financial assets - noncurrent	
Financial assets carried at cost - noncurrent	3,690,929	-	-	3,690,929	123,505	Financial assets carried at cost - noncurrent	
Investments accounted for by the equity method	309,374	-	-	309,374	10,352	Investments accounted for by the equity method	
Total long-term investments	4,203,414	-	-	4,203,414	140,653		
Properties	25,539,585	-	-	25,539,585	854,595	Property, plant and equipment	
Intangible assets							
Patents	10,296,588	-	-	10,296,588	344,541	Patents	
Goodwill	5,329,646	-	-	5,329,646	178,338	Goodwill	
Deferred pension cost	342	(342)	-	-	-	-	(4)
Other intangible assets	6,065,801	-	-	6,065,801	202,971	Other intangible assets	
Total intangible assets	21,692,377	(342)	-	21,692,035	725,850		
Other assets							
Refundable deposits	186,988	-	-	186,988	6,257	Refundable deposits	
Deferred charges	921,121	-	-	921,121	30,822	Deferred charges	
Deferred income tax assets - noncurrent	3,371,714	63,000	2,561,478	5,996,192	200,642	Deferred income tax assets	(2), (3)
Restricted assets - noncurrent	37,684	-	-	37,684	1,261	Restricted assets	
Other	9,240,923	(82,142)	-	9,158,781	306,468	Other assets - other	(4)
Total other assets	13,758,430	(19,142)	2,561,478	16,300,766	545,450		
Total	\$ 254,724,810	\$ (19,484)	\$ -	\$ 254,705,326	\$ 8,522,848		

(Continued)



ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs				Item		Note
		Measurement or Recognition Inconsistency	Presentation Difference	IFRSs				
Item	Amount			Amount				
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)			
Liabilities and stockholders' equity								
Current liabilities								
Hedging derivative assets - current	\$ 15,871	\$ -	\$ -	\$ 15,871	\$ 531	Hedging derivative assets - current		
Notes and accounts payable	79,222,932	-	(31,183,801)	48,039,131	1,607,466	Notes and accounts payable	(5)	
Income tax payable	2,056,643	-	-	2,056,643	68,819	Current tax liabilities		
Accrued expenses	43,653,132	126,611	-	43,779,743	1,464,940	Accrued expenses	(6)	
Payable for purchase of equipment	2,470,452	-	-	2,470,452	82,665	Payable for purchase of equipment		
-	-	-	45,494,755	45,494,755	1,522,328	Provisions - current	(5)	
Other current liabilities	50,193,914	-	(14,310,954)	35,882,960	1,200,702	Other current liabilities	(5)	
Total current liabilities	177,612,944	126,611	-	177,739,555	5,947,451			
Other liabilities								
Guarantee deposits received	98,879	-	-	98,879	3,308	Guarantee deposits received		
Total liabilities	177,711,823	126,611	-	177,838,434	5,950,759			
Stockholders' equity								
Common stock	8,520,521	-	-	8,520,521	285,110	Common stock		
Capital surplus						Capital surplus		
Additional paid-in capital - issuance of shares in excess of par	14,809,608	-	-	14,809,608	495,553	Additional paid-in capital - issuance of shares in excess of par		
Treasury stock transactions	1,730,458	-	-	1,730,458	57,904	Treasury stock transactions		
Long-term equity investments	18,037	(18,037)	-	-	-	-	(7)	
Merger	24,423	-	-	24,423	817	Merger		
Expired stock options	37,068	-	-	37,068	1,241	Expired stock options		
Retained earnings								
Legal reserve	16,471,254	-	-	16,471,254	551,155	Legal reserve		
Accumulated earnings	48,765,769	(96,217)	-	48,669,552	1,628,561	Accumulated earnings	(3), (4), (6), (7), (8)	
Other equity								
Cumulative translation adjustments	(508,471)	(32,134)	-	(540,605)	(18,090)	Cumulative translation adjustments	(8)	
Net loss not recognized as pension cost	(293)	293	-	-	-	-	(4)	
Unrealized valuation gain on financial instruments	14,532	-	-	14,532	486	Unrealized valuation gain on financial instruments		
Treasury stock	(14,065,490)	-	-	(14,065,490)	(470,654)	Treasury stock		
Equity attributable to stockholders of the parent	75,817,416	(146,095)	-	75,671,321	2,532,083			
Minority interest	1,195,571	-	-	1,195,571	40,006	Non-controlling interests		
Total stockholders' equity	77,012,987	(146,095)	-	76,866,892	2,572,089			
Total	\$ 254,724,810	\$ (19,484)	\$ -	\$ 254,705,326	\$ 8,522,848			

(Concluded)

### 3) Reconciliation of the consolidated income statement for the six months ended June 30, 2012:

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs		IFRSs		Item	Note
		Measurement or Recognition Inconsistency	Presentation Difference				
Item	Amount			Amount			
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)		
Revenues	\$ 158,830,457	\$ -	\$ -	\$ 158,830,457	\$ 5,314,722	Revenues	
Cost of revenues	117,273,072	4,520	-	117,277,592	3,924,296	Cost of revenues	(4), (6)
Gross profit	41,557,385	(4,520)	-	41,552,865	1,390,426	Gross profit	
Operating expenses						Operating expenses	
Research and development	8,061,264	17,126	-	8,078,390	270,316	Research and development	(4), (6)
General and administrative	3,436,513	2,880	-	3,439,393	115,088	General and administrative	(4), (6)
Selling and marketing	16,759,486	1,854	-	16,761,340	560,861	Selling and marketing	(4), (6)
Total operating expenses	28,257,263	21,860	-	28,279,123	946,265	Total operating expenses	
Operating income	13,300,122	(26,380)	-	13,273,742	444,161	Operating income	
Nonoperating income and gains						Nonoperating income and gains	
Interest income	327,491	-	-	327,491	10,958	Interest income	
Gain on sale of investments	39,656	-	-	39,656	1,327	Gain on sale of investments	
Exchange gain	378,998	-	-	378,998	12,682	Exchange gain	
Valuation gain on financial assets	183,411	-	-	183,411	6,137	Valuation gain on financial assets	
Other	261,172	-	-	261,172	8,740	Other	
Total nonoperating income and gains	1,190,728	-	-	1,190,728	39,844	Total nonoperating income and gains	

(Continued)

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs			IFRSs		Item	Note
		Measurement or Recognition Inconsistency	Presentation Difference					
Item	Amount NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)			
Nonoperating expenses and losses						Nonoperating expenses and losses		
Interest expense	\$ 499	\$ -	\$ -	\$ 499	\$ 17	Interest expense		
Investment loss	12,069	-	-	12,069	404	Investment loss		
Loss on disposal of properties	120	-	-	120	4	Loss on disposal of properties		
Other	55,089	-	-	55,089	1,843	Other		
Total nonoperating expenses and losses	67,777	-	-	67,777	2,268	Total nonoperating expenses and losses		
Income before income tax	14,423,073	(26,380)	-	14,396,693	481,737	Income before income tax		
Income tax	(1,948,241)	5,000	-	(1,943,241)	(65,024)	Income tax	(3)	
Net income	\$ 12,474,832	\$ (21,380)	\$ -	\$ 12,453,452	\$ 416,713	Net income		
				\$ (540,605)	\$ (18,090)	Exchange differences on translating foreign operations		
				29,587	990	Unrealized valuation gain on available-for-sale financial assets		
				(17,994)	(602)	Unrealized valuation loss on financial instruments for cash flow hedging		
				-	-	Income tax relating to components of OCI		
				(529,012)	(17,702)	OCI for the year (net of tax)		
				\$ 11,924,440	\$ 399,011	Other comprehensive income		

(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 short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. 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, as of January 1, and June 30, 2012, the reclassification adjustment resulted in decrease of “cash and cash equivalents” and corresponding increase of “other receivable” by NT\$25,474,750 thousand (US\$852,426 thousand) and NT\$25,725,760 thousand (US\$860,825 thousand), respectively.
- (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 based on the expected length of time before it is realized or settled. By contrast, under IFRSs, a deferred income tax asset or liability is always classified as noncurrent. Therefore, as of January 1, and June 30, 2012, the reclassification adjustment resulted in decrease of “deferred income tax asset - current” and corresponding increase of “deferred income tax asset - noncurrent” by NT\$2,246,196 thousand (US\$75,161 thousand) and NT\$2,561,478 thousand (US\$85,711 thousand), respectively.

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, as of January 1, and June 30, 2012, the reclassification adjustment resulted in a decrease of “deferred income tax assets” and its valuation allowance account by NT\$11,132,656 thousand (US\$372,517 thousand) and NT\$10,148,930 thousand (US\$339,599 thousand), respectively.

(3) Under ROC GAAP, deferred income tax assets or liabilities from 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 assets" by NT\$58,000 thousand (US\$1,941 thousand) and a corresponding increase of "accumulated earnings". In addition, the evaluation adjustment made on June 30, 2012 resulted in a increase of "deferred income tax assets" and a corresponding increase of "accumulated earnings" by NT\$63,000 thousand (US\$2,108 thousand) and a decrease of "income tax" by NT\$5,000 thousand (US\$167 thousand).

(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, as of January 1, 2012, the IFRS adjustment resulted in a decrease in "accumulated earnings" of NT\$83,687 thousand (US\$2,800 thousand) due to decreases of "deferred pension cost" by NT\$342 thousand (US\$11 thousand), "defined benefit assets" by NT\$83,052 thousand (US\$2,779 thousand) and "net loss not recognized as pension cost" by NT\$293 thousand (US\$10 thousand).

As of June 30, 2012, the IFRS adjustment resulted in a decrease in "accumulated earnings" of NT\$82,777 thousand (US\$2,770 thousand) due to decreases of "deferred pension cost" by NT\$342 thousand (US\$11 thousand), "defined benefit assets" by NT\$82,142 thousand (US\$2,749 thousand) and "net loss not recognized as pension cost" by NT\$293 thousand (US\$10 thousand). In addition, this adjustment also resulted in decreases of "cost of revenues" by 267 thousand (US\$9 thousand), "selling and marketing expenses" by NT\$68 thousand (US\$2 thousand), "general and administrative expenses" by NT\$87 thousand (US\$3 thousand) and "research and developing expenses" by NT\$488 thousand (US\$16 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 accrued 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, as of January 1, and June 30, 2012, the reclassification adjustment resulted in decrease of "notes and accounts payable" and "other current liabilities" and corresponding increase of "provisions - current" by NT\$43,472,951 thousand (US\$1,454,675 thousand) and NT\$45,494,755 thousand (US\$1,522,328 thousand), respectively.

(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, as of January 1, 2012, the IFRS adjustment resulted in an increase of "accrued expenses" of NT\$99,321 thousand (US\$3,323 thousand) and a corresponding decrease of "accumulated earnings". In addition, the evaluation adjustment made on June 30, 2012 resulted in decrease in "accumulated earnings" of NT\$126,611 thousand (US\$4,236 thousand) due to increase of "accrued expenses", this adjustment also resulted in increases of "cost of revenues" by NT\$4,787 thousand (US\$160 thousand), "selling and marketing expenses" by NT\$1,922 thousand (US\$64 thousand), "general and administrative expenses" by NT\$2,967 thousand (US\$100 thousand) and "research and developing expenses" by NT\$17,614 thousand (US\$589 thousand).

- (7) Under ROC GAAP, if an investee issues new shares and an investor does not purchase new shares proportionately, which results in a change in the Company's holding percentage and its interest in the investee's net assets, such difference shall be adjusted to 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 recognized 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\$604 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 January 1, 2012. 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\$1,076 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 main optional exemptions the Company adopted are summarized as follows:
- 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, in the opening balance sheet, the amount of goodwill generated from past business combinations remains the same compared with the one under R.O.C. 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 in New Taiwan dollars 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.

The foregoing optional exemptions that the Company plans 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\$1,076 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\$74,837 thousand (US\$2,504 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 results may differ from these 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:

<b>Standards or Interpretations</b>	<b>Content</b>	<b>Effective Date by IASB</b>
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.