

# **HTC Corporation**

**Financial Statements for the  
Three Months Ended March 31, 2010 and 2011 and  
Independent Accountants' Review Report**

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

The Board of Directors and Stockholders  
HTC Corporation

We have reviewed the accompanying balance sheets of HTC Corporation (the "Company") as of March 31, 2010 and 2011, and the related statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also reviewed the consolidated financial statements of HTC Corporation and subsidiaries as of and for the three months ended March 31, 2010 and 2011 and have issued unqualified review reports, respectively.

In addition, the translation of the 2011 New Taiwan dollars amounts into U.S. dollars has been reviewed on the basis stated in Note 3 to the financial statements.

April 19, 2011

Notice to Readers

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

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

# HTC CORPORATION

## BALANCE SHEETS MARCH 31, 2010 AND 2011 (In Thousands, Except Par Value) (Reviewed, Not Audited)

ASSETS	2010			2011			
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)	
<b>CURRENT ASSETS</b>							
Cash and cash equivalents (Notes 2 and 5)	\$ 66,058,377	\$ 86,722,010	\$ 2,949,076				
Financial assets at fair value through profit or loss (Notes 2, 6 and 24)	68,325	-	-				
Available-for-sale financial assets - current (Notes 2 and 7)	2,158,855	442,557	15,050				
Accounts receivable, net (Notes 2 and 8)	26,310,699	29,177,979	992,229				
Accounts receivable from related parties, net (Notes 2 and 25)	635,948	32,657,551	1,110,556				
Other current financial assets (Notes 9 and 25)	203,816	1,491,832	50,731				
Inventories (Notes 2 and 10)	7,589,671	27,864,774	947,572				
Prepayments (Notes 11 and 25)	3,112,414	3,725,161	126,678				
Deferred income tax assets (Notes 2 and 22)	839,595	1,088,510	37,016				
Other current assets	105,668	709,763	24,136				
<b>Total current assets</b>	<b>107,083,368</b>	<b>183,880,137</b>	<b>6,253,044</b>				
<b>INVESTMENTS</b>							
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	313	530	18				
Held-to-maturity financial assets - noncurrent (Notes 2 and 12)	-	207,120	7,043				
Financial assets carried at cost (Notes 2 and 13)	501,192	515,861	17,543				
Investments accounted for by the equity method (Notes 2 and 14)	6,364,512	11,098,312	377,410				
Prepayments for long-term investments (Notes 2 and 14)	100,000	2,879,394	97,917				
<b>Total investments</b>	<b>6,966,017</b>	<b>14,701,217</b>	<b>499,931</b>				
<b>PROPERTIES (Notes 2 and 15)</b>							
Cost							
Land	5,387,718	5,690,718	193,519				
Buildings and structures	3,236,067	3,576,775	121,632				
Machinery and equipment	4,019,535	5,766,995	196,113				
Molding equipment	172,632	172,632	5,871				
Computer equipment	305,921	350,638	11,924				
Transportation equipment	2,732	6,570	223				
Furniture and fixtures	132,669	147,563	5,018				
Leased assets	4,712	4,712	160				
Leasehold improvements	96,014	141,855	4,824				
Total cost	13,358,000	15,858,458	539,284				
Less: Accumulated depreciation	(4,476,285)	(5,144,174)	(174,933)				
Prepayments for construction-in-progress and equipment-in-transit	46,555	524,895	17,849				
<b>Properties, net</b>	<b>8,928,270</b>	<b>11,239,179</b>	<b>382,200</b>				
<b>INTANGIBLE ASSETS</b>							
Patents (Note 2)	-	198,675	6,756				
<b>OTHER ASSETS</b>							
Refundable deposits	68,997	74,777	2,543				
Deferred charges (Note 2)	57,263	22,419	762				
Deferred income tax assets (Notes 2 and 22)	1,131,313	3,071,158	104,438				
Restricted assets (Note 26)	63,900	63,900	2,173				
Others (Notes 2, 11 and 18)	1,883,100	4,020,443	136,720				
<b>Total other assets</b>	<b>3,204,573</b>	<b>7,252,697</b>	<b>246,636</b>				
<b>TOTAL</b>	<b>\$ 126,182,228</b>	<b>\$ 217,271,905</b>	<b>\$ 7,388,567</b>				
				<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
				<b>CURRENT LIABILITIES</b>			
				Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	\$ -	\$ 143,651	\$ 4,885
				Notes and accounts payable	27,135,703	62,262,448	2,117,302
				Accounts payable to related parties (Note 25)	40,118	3,160,196	107,466
				Income tax payable (Notes 2 and 22)	4,962,110	9,055,178	307,931
				Accrued expenses (Notes 16 and 25)	20,487,523	39,824,530	1,354,277
				Payable for purchase of equipment	66,205	104,668	3,559
				Other current liabilities (Notes 2, 17 and 25)	7,723,200	12,890,670	438,361
				<b>Total current liabilities</b>	<b>60,414,859</b>	<b>127,441,341</b>	<b>4,333,781</b>
				<b>OTHER LIABILITIES</b>			
				Guarantee deposits received	1,210	628	21
				<b>Total liabilities</b>	<b>60,416,069</b>	<b>127,441,969</b>	<b>4,333,802</b>
				<b>STOCKHOLDERS' EQUITY (Note 19)</b>			
				Capital stock - NT\$10.00 par value			
				Authorized: 1,000,000 thousand shares			
				Issued and outstanding: 788,936 thousand shares in 2010 and 817,653 thousand shares in 2011			
				Common stock	7,889,358	8,176,532	278,052
				Capital surplus			
				Additional paid-in capital from share issuance in excess of par	9,056,323	10,777,623	366,505
				Long-term equity investments	18,411	18,411	626
				Merger	25,189	24,710	840
				Retained earnings			
				Legal reserve	10,273,674	10,273,674	349,367
				Accumulated earnings	43,362,526	67,709,756	2,302,544
				Cumulative translation adjustments (Note 2)	(23,456)	(297,872)	(10,129)
				Net loss not recognized as pension cost	(34)	(121)	(4)
				Unrealized losses on financial instruments (Notes 2 and 24)	(1,658)	(284)	(10)
				Treasury stock (Notes 2 and 20)	(4,834,174)	(6,852,493)	(233,026)
				<b>Total stockholders' equity</b>	<b>65,766,159</b>	<b>89,829,936</b>	<b>3,054,765</b>

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

# HTC CORPORATION

## STATEMENTS OF INCOME THREE MONTHS ENDED MARCH 31, 2010 AND 2011 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$ 37,697,395	\$ 101,018,948	\$ 3,435,259
COST OF REVENUES (Notes 10, 21 and 25)	<u>26,256,921</u>	<u>73,598,941</u>	<u>2,502,812</u>
GROSS PROFIT	11,440,474	27,420,007	932,447
UNREALIZED GAIN ON INTERCOMPANY TRANSACTIONS	(142,158)	(382,758)	(13,016)
REALIZED GAIN ON INTERCOMPANY TRANSACTIONS	<u>108,150</u>	<u>345,455</u>	<u>11,748</u>
REALIZED GROSS PROFIT	<u>11,406,466</u>	<u>27,382,704</u>	<u>931,179</u>
OPERATING EXPENSES (Notes 21 and 25)			
Selling and marketing	3,039,623	6,957,741	236,606
General and administrative	810,985	1,140,377	38,780
Research and development	<u>2,044,417</u>	<u>4,000,144</u>	<u>136,029</u>
Total operating expenses	<u>5,895,025</u>	<u>12,098,262</u>	<u>411,415</u>
OPERATING INCOME	<u>5,511,441</u>	<u>15,284,442</u>	<u>519,764</u>
NONOPERATING INCOME AND GAINS			
Interest income	61,797	116,937	3,976
Gains on equity-method investments (Notes 2 and 14)	113,064	838,666	28,520
Gain on sale of investments	1,476	-	-
Exchange gain (Note 2)	-	534,019	18,160
Valuation gain on financial instruments, net (Notes 2 and 6)	68,325	-	-
Other (Note 25)	<u>13,346</u>	<u>38,736</u>	<u>1,317</u>
Total nonoperating income and gains	<u>258,008</u>	<u>1,528,358</u>	<u>51,973</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	17	-	-
Exchange loss (Note 2)	41,886	-	-
Valuation loss on financial instruments, net (Notes 2 and 6)	-	143,651	4,885
Other	<u>7,002</u>	<u>1,764</u>	<u>60</u>
Total nonoperating expenses and losses	<u>48,905</u>	<u>145,415</u>	<u>4,945</u>

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# HTC CORPORATION

## STATEMENTS OF INCOME THREE MONTHS ENDED MARCH 31, 2010 AND 2011 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	2010		2011		
	NT\$		NT\$		US\$ (Note 3)
INCOME BEFORE INCOME TAX	\$ 5,720,544		\$ 16,667,385		\$ 566,792
INCOME TAX (Notes 2 and 22)	<u>(722,117)</u>		<u>(1,834,521)</u>		<u>(62,385)</u>
NET INCOME	<u>\$ 4,998,427</u>		<u>\$ 14,832,864</u>		<u>\$ 504,407</u>
	<b>2010</b>		<b>2011</b>		
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$
				US\$ (Note 3)	
EARNINGS PER SHARE (Note 23)					
Basic	<u>\$ 7.30</u>	<u>\$ 6.38</u>	<u>\$ 20.63</u>	<u>\$ 0.70</u>	<u>\$ 18.36</u>
Diluted	<u>\$ 7.27</u>	<u>\$ 6.35</u>	<u>\$ 20.56</u>	<u>\$ 0.70</u>	<u>\$ 18.29</u>

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

(Concluded)

# HTC CORPORATION

## STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2010 AND 2011 (In Thousands) (Reviewed, Not Audited)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 4,998,427	\$ 14,832,864	\$ 504,407
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	152,803	209,910	7,138
Amortization	12,510	15,145	515
Amortization of premium on financial assets	-	826	28
Prepaid pension costs	(5,289)	(8,952)	(304)
Gains on equity-method investments	(113,064)	(838,666)	(28,520)
Transfer of properties to expenses	511	59	2
Gain on sale of investments, net	(1,476)	-	-
Deferred income tax assets	(93,567)	(814,658)	(27,703)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(50,193)	593,927	20,197
Accounts receivable	(984,471)	6,001,059	204,073
Accounts receivable from related parties	1,608,602	(4,471,160)	(152,047)
Other current financial assets	30,385	(774,196)	(26,327)
Inventories	(2,372,478)	(5,944,282)	(202,142)
Prepayments	239,077	(1,377,544)	(46,845)
Other current assets	21,112	(252,709)	(8,594)
Other assets - other	103,012	(1,368,390)	(46,533)
Notes and accounts payable	1,860,563	3,841,524	130,635
Accounts payable - related parties	(45,558)	1,813,215	61,660
Income tax payable	809,486	2,638,511	89,726
Accrued expenses	3,359,549	8,160,901	277,520
Other current liabilities	<u>452,900</u>	<u>1,720,658</u>	<u>58,513</u>
Net cash provided by operating activities	<u>9,982,841</u>	<u>23,978,042</u>	<u>815,399</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of available-for-sale financial assets	(2,708,855)	-	-
Proceeds of the sale of available-for-sale financial assets	3,048,870	-	-
Increase in investments accounted for by the equity method	(384,703)	(2,871,519)	(97,649)
Purchase of properties	(722,235)	(671,009)	(22,818)
Decrease in refundable deposits	<u>169</u>	<u>4,420</u>	<u>150</u>
Net cash used in investing activities	<u>(766,754)</u>	<u>(3,538,108)</u>	<u>(120,317)</u>

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# HTC CORPORATION

## STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2010 AND 2011 (In Thousands) (Reviewed, Not Audited)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Purchase of treasury stock	\$ (4,834,174)	\$ -	\$ -
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,381,913	20,439,934	695,082
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>61,676,464</u>	<u>66,282,076</u>	<u>2,253,994</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 66,058,377</u>	<u>\$ 86,722,010</u>	<u>\$ 2,949,076</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid during the period			
Interest (net of amounts capitalized)	\$ 17	\$ -	\$ -
Income tax	\$ 6,198	\$ 10,668	\$ 363
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Transfer of assets leased to others to properties	\$ 48,135	\$ 50,828	\$ 1,728
<b>INCREASE IN INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD</b>			
Increase in investments accounted for by the equity method	\$ 385,303	\$ 2,872,988	\$ 97,699
Increase in payable for purchase of investments	(600)	(1,469)	(50)
Cash paid	<u>\$ 384,703</u>	<u>\$ 2,871,519</u>	<u>\$ 97,649</u>
<b>PURCHASE OF PROPERTIES</b>			
Cost of properties purchased	\$ 719,272	\$ 457,090	\$ 15,544
Decrease in payable for purchase of equipment	2,701	213,919	7,274
Decrease in lease payable	262	-	-
Cash paid for purchase of properties	<u>\$ 722,235</u>	<u>\$ 671,009</u>	<u>\$ 22,818</u>

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

(Concluded)



# HTC CORPORATION

## NOTES TO FINANCIAL STATEMENTS THREE MONTHS ENDED MARCH 31, 2010 AND 2011 (In Thousands, Unless Stated Otherwise) (Reviewed, Not Audited)

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### 1. ORGANIZATION AND OPERATIONS

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

The Company had 8,023 and 10,948 employees as of March 31, 2010 and 2011, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines, laws and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of properties, income tax, royalty, pension cost, allowance for product warranties, bonuses to employees, etc. Actual results may differ from these estimates.

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

The Company’s significant accounting policies are summarized as follows:

#### **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.

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.

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

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

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

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

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

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

An allowance for doubtful accounts is provided on the basis of a review of the collectability 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.

As discussed in Note 3 to the financial statements, 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;
- The accounts receivable become 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 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. Effective from January 1, 2008, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Cost is determined using the moving-average method.

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

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

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

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

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

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

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

Prior to January 1, 2006, the difference between the acquisition cost and the Company's proportionate share in the investee's equity was amortized by the straight-line method over five years. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard (SFAS) No. 5, "Long-term Investments Accounted for by Equity Method", the acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The excess of the fair value of the net identifiable assets acquired over 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. Effective January 1, 2006, the accounting treatment for the unamortized investment premium arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount continues to be amortized over the remaining year.

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

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

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

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

### **Intangible Assets**

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

### **Deferred Charges**

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

### **Asset Impairment**

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

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

### **Reserve for Warranty Expenses**

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

### **Product-related Costs**

The cost of revenues consists of costs of goods sold, write-downs of inventories and the reversal of write-downs. The provisions for product warranty are estimated and recorded under cost of revenues when sales are recognized.

### **Pension Plan**

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

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

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

### **Income Tax**

The Company applies intra-year and inter-year allocations for its income tax, whereby (1) a portion of income tax expense is allocated to the cumulative effect of changes in accounting principles; 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.

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

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

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

### **Treasury Stock**

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

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

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

### **Foreign Currencies**

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

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

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

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

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

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

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

### **Reclassifications**

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

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

The financial statements are stated in New Taiwan dollars. The translation of the 2011 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$29.4065 to US\$1.00 quoted by the Bank of Taiwan on March 31, 2011. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

### 4. ACCOUNTING CHANGES

#### Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions 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 a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. The adoption had no material effect on the Company's financial statements as of and for the three months ended March 31, 2011.

#### Operating Segments

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

### 5. CASH AND CASH EQUIVALENTS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 880	\$ 1,000	\$ 34
Cash in banks	1,377,996	13,394,462	455,493
Time deposits	<u>64,679,501</u>	<u>73,326,548</u>	<u>2,493,549</u>
	<u>\$ 66,058,377</u>	<u>\$ 86,722,010</u>	<u>\$ 2,949,076</u>

On time deposits, interest rates ranged from 0.05% to 1.03% and from 0.04% to 1.175%, as of March 31, 2010 and 2011, respectively.

On preferential deposits, interest rates ranged from 0.10% to 0.70% and from 0.15% to 0.75% as of March 31, 2010 and 2011, respectively.



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

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial assets			
Exchange contracts	\$ <u>68,325</u>	\$ <u>-</u>	\$ <u>-</u>
Derivatives - financial liabilities			
Exchange contracts	\$ <u>-</u>	\$ <u>143,651</u>	\$ <u>4,885</u>

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

### Forward Exchange Contracts

	<u>2010</u>			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2010.04.21-2010.05.26	EUR 88,000
	<u>2011</u>			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2011.04.13-2011.06.01	EUR 234,000
Forward exchange contracts	Sell	EUR/TWD	2011.04.29	EUR 10,000
Forward exchange contracts	Sell	GBP/USD	2011.05.25-2011.06.01	GBP 23,000
Forward exchange contracts	Sell	USD/TWD	2011.04.06	USD 43,000
Forward exchange contracts	Buy	USD/JPY	2011.04.13-2011.06.29	USD 11,252

Net gain on derivative financial instruments for the three months ended March 31, 2010 was NT\$233,161 thousand, including realized settlement gain of NT\$164,836 thousand and valuation gain of NT\$68,325 thousand. Note 24 has more information.

Net loss on derivative financial instruments for the three months ended March 31, 2011 was NT\$424,389 thousand (US\$14,432 thousand), including realized settlement loss of NT\$280,738 thousand (US\$9,547 thousand) and valuation loss of NT\$143,651 thousand (US\$4,885 thousand). Note 24 has more information.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ 2,158,855	\$ 442,557	\$ 15,050
Domestic quoted stocks	313	530	18
Less: Current portion	<u>(2,158,855)</u>	<u>(442,557)</u>	<u>(15,050)</u>
	<u>\$ 313</u>	<u>\$ 530</u>	<u>\$ 18</u>

## 8. ACCOUNTS RECEIVABLE

Accounts receivable as of March 31, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Accounts receivable	\$ 27,319,190	\$ 30,186,470	\$ 1,026,524
Less: Allowance for doubtful accounts	<u>(1,008,491)</u>	<u>(1,008,491)</u>	<u>(34,295)</u>
	<u>\$ 26,310,699</u>	<u>\$ 29,177,979</u>	<u>\$ 992,229</u>

## 9. OTHER CURRENT FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 171,304	\$ 1,385,741	\$ 47,123
Other receivables from related parties (Note 25)	10,008	57,762	1,964
Agency payments	11,519	26,078	887
Interest receivable	<u>10,985</u>	<u>22,251</u>	<u>757</u>
	<u>\$ 203,816</u>	<u>\$ 1,491,832</u>	<u>\$ 50,731</u>

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

## 10. INVENTORIES

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 895,270	\$ 670,314	\$ 22,795
Work-in-process	2,391,832	8,695,915	295,714
Raw materials	4,191,897	17,167,898	583,813
Goods in transit	<u>110,672</u>	<u>1,330,647</u>	<u>45,250</u>
	<u>\$ 7,589,671</u>	<u>\$ 27,864,774</u>	<u>\$ 947,572</u>

As of March 31, 2010 and 2011, the allowance for inventory devaluation was NT\$2,583,609 thousand and NT\$3,780,010 thousand (US\$128,543 thousand), respectively.

The cost of Sales for the three months ended March 31, 2010 included NT\$63,158 thousand, which was due to the reversal of write-downs of inventories. The write-down of inventories to their net realizable value amounting to NT\$343,313 thousand (US\$11,675 thousand) was recognized as cost of sales for the three months ended March 31, 2011.

## 11. PREPAYMENTS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 2,722,547	\$ 1,964,832	\$ 66,816
Prepayments to suppliers	592	1,236,598	42,052
Marketing	141,435	199,508	6,785
Services	109,909	169,500	5,764
Software and hardware maintenance	62,689	102,201	3,475
Insurance	3,544	8,433	287
Others	<u>71,698</u>	<u>44,089</u>	<u>1,499</u>
	<u>\$ 3,112,414</u>	<u>\$ 3,725,161</u>	<u>\$ 126,678</u>

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of March 31, 2010 and 2011, noncurrent prepayments of NT\$1,740,158 thousand and NT\$3,250,397 thousand (US\$110,533 thousand), respectively, had been classified as other assets (Note 28 has more information).

Prepayments to suppliers were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of March 31, 2011, noncurrent prepayments of NT\$602,148 thousand (US\$20,477 thousand) had been classified as other assets.

Prepayments for others were primarily rent and travel expense.

## 12. HELD-TO-MATURITY FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Corporate bonds	\$ <u>          -</u>	\$ <u>207,120</u>	\$ <u>7,043</u>

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

## 13. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of March 31, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 17,003
BandRich Inc.	-	15,861	540
Answer Online, Inc.	<u>1,192</u>	<u>-</u>	<u>-</u>
	<u>\$ 501,192</u>	<u>\$ 515,861</u>	<u>\$ 17,543</u>

In January 2007, the Company acquired 10% equity interest in Hua-Chuang Automobile Information Technical Center Co., Ltd. for NT\$500,000 thousand. The Company also signed a joint venture agreement with Yulon Group, the main stockholder of Hua-Chuang. Under the agreement, the Company and Yulon Group may, between January 1, 2010 and December 31, 2011, submit written requests to each other for Yulon Group to buy back NT\$300,000 thousand at original price, some of Hua-Chuang's shares bought by the Company. The buy-back proposed by Yulon Group becomes effective with a consensus from the Company.

In March 2004, the Company merged with IA Style, Inc. and acquired 1.82% equity interest in Answer Online, Inc. as a result of the merger. In addition, the Company determined that the recoverable amount of this investment in 2010 was less than its carrying amount and thus recognized an impairment loss of NT\$1,192 thousand.

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT\$135,000 thousand and accounted for this investment by the equity method. In May 2006 and July 2010, BandRich Inc. issued common shares and the Company did not buy any shares. The Company's ownership percentage declined from 92% to 18.08% and lost its significant influence. As a result, the Company transferred this investment to "financial assets carried at cost" using book value at the time of its ownership percentage changed in July 2010.

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

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

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

	2010		2011				Ownership Percentage
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
	NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method							
H.T.C. (B.V.I.) Corp.	\$ 1,795,321	100.00	\$ 848,236	\$ 28,845	\$ 1,069,728	\$ 36,377	100.00
BandRich Inc.	28,195	50.66	-	-	-	-	-
Communication Global Certification Inc.	281,435	100.00	380,000	12,922	416,590	14,166	100.00
High Tech Computer Asia Pacific Pte. Ltd.	3,418,622	100.00	6,563,133	223,186	8,769,250	298,208	100.00
Vitamin D Inc.	-	25.59	-	-	-	-	-
HTC Investment Corporation	300,661	100.00	300,000	10,202	300,940	10,234	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	62	2	1.00
HTC I Investment Corporation	295,238	100.00	295,000	10,032	295,929	10,063	100.00
HTC Holding Cooperatief U.A.	13	1.00	13	1	13	1	1.00
Huada Digital Corporation	244,965	100.00	245,000	8,331	245,800	8,359	100.00
Prepayments for long-term investments	<u>100,000</u>		<u>2,879,394</u>	<u>97,917</u>	<u>2,879,394</u>	<u>97,917</u>	
	<u>\$ 6,464,512</u>		<u>\$ 11,510,838</u>	<u>\$ 391,438</u>	<u>\$ 13,977,706</u>	<u>\$ 475,327</u>	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT\$12,834 thousand and accounted for this investment by the equity method. The Company made a new investment of NT\$570,991 thousand and reorganized its overseas subsidiaries' investment structure in 2010. Then, H.T.C. (B.V.I.) Corp. transferred some of its subsidiaries to High Tech Computer Asia Pacific Pte. Ltd. and reduced its capital by NT\$893,506 thousand.

In 2011, the Company made a new investment of NT\$1,478,087 (US\$50,264 thousand) in H.T.C. (B.V.I.) Corp. As of March 31, 2011, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to NT\$2,333,913 thousand (US\$79,367 thousand). Because the registration of this investment had not been completed as of March 31, 2011, an amount of NT\$1,485,677 thousand (US\$50,522 thousand) was temporarily accounted for under "prepayments for long-term investments."

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

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc. for NT\$280,000 thousand and accounted for this investment by the equity method. The Company increased this investment by NT\$100,000 thousand in 2010. As of March 31, 2011, the Company's investment in Communication Global Certification Inc. amounted to NT\$380,000 thousand (US\$12,922 thousand).

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. ("High Tech Asia") for NT\$560,660 thousand and accounted for this investment by the equity method. In 2010, High Tech Asia increased its capital by NT\$3,198,864 thousand because of the Company's new cash investment and a transfer-in due to the reorganization of the Company's overseas subsidiaries' investment structure. In 2011, the Company increased this investment by NT\$1,394,901 thousand (US\$47,435 thousand). As of March 31, 2011, the Company's investment in High Tech Asia had amounted to NT\$7,956,850 thousand (US\$270,581 thousand). Because the registration of this investment had not been completed as of March 31, 2011, an amount of NT\$1,393,717 thousand (US\$47,395 thousand) was temporarily accounted for under "prepayments for long-term investments."

In April 2008, the Company made a new investment of US\$350 thousand and transferred its bond investment of US\$1,000 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27.27% equity interest in Vitamin D Inc. for NT\$40,986 thousand, enabling the Company to exercise significant influence over this investee. Thus, the Company accounts for this investment by the equity method. In September 2008, January 2009 and June 2009, Vitamin D Inc. issued new convertible preferred shares, but the Company did not buy any of these shares. The Company's ownership percentage thus declined from 27.27% to 25.59%, and there was a capital surplus - long-term equity investments of NT\$1,689 thousand, NT\$671 thousand in 2008 and 2009, respectively. In addition, the Company determined that the recoverable amount of this investment in 2009 was less than its carrying amount and thus recognized an impairment loss of NT\$30,944 thousand. Vitamin D was dissolved in August 2010.

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

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

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

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

In December 2009, the Company acquired 100% equity interest in Huada Digital Corporation for NT\$245,000 thousand and accounted for this investment by the equity method.

On its equity-method investments, the Company had gains of NT\$113,064 thousand and NT\$838,666 thousand (US\$28,520 thousand) for the three months ended March 31, 2010 and 2011, respectively.

The financial statements of equity-method investees for the three months ended March 31, 2010 and 2011 had been reviewed by the Company's independent accountants.

Under orders VI-0960064017 and VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the three months ended March 31, 2010 and 2011. All significant intercompany balances and transactions have been eliminated.

## 15. PROPERTIES

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

	2010		2011		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Land	\$ 5,387,718	\$ 5,690,718	\$ -	\$ 5,690,718	\$ 193,519
Buildings and structures	2,549,931	3,576,775	826,744	2,750,031	93,518
Machinery and equipment	811,214	5,766,995	3,684,111	2,082,884	70,831
Molding equipment	-	172,632	172,632	-	-
Computer equipment	73,024	350,638	268,751	81,887	2,785
Transportation equipment	1,254	6,570	2,070	4,500	153
Furniture and fixtures	19,668	147,563	119,978	27,585	938
Leased assets	1,374	4,712	4,123	589	20
Leasehold improvements	37,532	141,855	65,765	76,090	2,587
Prepayments for land, construction-in-progress and equipment-in-transit	46,555	524,895	-	524,895	17,849
	<u>\$ 8,928,270</u>	<u>\$16,383,353</u>	<u>\$ 5,144,174</u>	<u>\$11,239,179</u>	<u>\$ 382,200</u>

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

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

Prepayments for construction-in-progress and equipment-in-transit were prepayments for the construction of Taipei R&D headquarter and Taoyuan plant and miscellaneous equipments.

There were no interests capitalized for the three months ended March 31, 2010 and 2011, respectively.

## 16. ACCRUED EXPENSES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 10,578,210	\$ 21,233,334	\$ 722,063
Bonus to employees	5,932,503	11,677,761	397,115
Services	1,407,171	2,946,918	100,213
Salaries and bonuses	846,610	1,539,330	52,347
Import, export and freight	550,184	823,881	28,017
Research materials	327,690	383,263	13,033
Donation	327,601	332,800	11,317
Insurance	75,278	144,884	4,927
Meals and welfare	109,328	133,647	4,545

(Continued)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Repair and maintenance	\$ 71,363	\$ 81,459	\$ 2,770
Pension cost	48,462	80,013	2,721
Travel	28,428	52,704	1,792
Others	<u>184,695</u>	<u>394,536</u>	<u>13,417</u>
	<u>\$ 20,487,523</u>	<u>\$ 39,824,530</u>	<u>\$ 1,354,277</u> (Concluded)

Based on the resolutions passed by the Company's board of directors in January 2010, the employee bonuses for 2010 should be appropriated at 18% of net income before deducting employee bonus expenses. Based on historical experience, the employee bonus for 2011 was accrued at 18% of net income before deducting employee bonus expenses. Accrued bonus as of March 31, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Accrued bonus to employees for current year	\$ 1,073,267	\$ 3,186,057	\$ 108,345
Accrued bonus to employees for prior years	<u>4,859,236</u>	<u>8,491,704</u>	<u>288,770</u>
	<u>\$ 5,932,503</u>	<u>\$ 11,677,761</u>	<u>\$ 397,115</u>

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

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

Services fees accrued were mainly marketing activities, research and design and business consulting services provided by related parties.



## 17. OTHER CURRENT LIABILITIES

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 6,005,746	\$ 11,091,867	\$ 377,191
Other payables (Note 25)	693,936	265,336	9,023
Agency receipts (Note 25)	407,189	355,982	12,106
Advance receipts	251,806	372,536	12,668
Deferred credits - profit from intercompany transactions	142,158	382,759	13,016
Other	<u>222,365</u>	<u>422,190</u>	<u>14,357</u>
	<u>\$ 7,723,200</u>	<u>\$ 12,890,670</u>	<u>\$ 438,361</u>

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

Other payables were payables for investments accounted for by the equity method, miscellaneous expenses of overseas sales offices and repair materials.

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

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

## 18. PENSION PLAN

The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions for the three months ended March 31, 2010 and 2011 were NT\$45,218 thousand and NT\$75,735 thousand (US\$2,576 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund was 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee's name. The pension fund balances were NT\$426,695 thousand and NT\$457,712 thousand (US\$15,565 thousand) as of March 31, 2010 and 2011, respectively.

Based on the Statement of Financial Accounting Standards No. 18 - "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC, changes of prepaid pension cost under the defined benefit plans for the three months ended March 31, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Balance, beginning of period	\$ 137,653	\$ 158,945	\$ 5,405
Contributions	(792)	(1,031)	(35)
Payments	<u>6,081</u>	<u>9,984</u>	<u>340</u>
Balance, end of period	<u>\$ 142,942</u>	<u>\$ 167,898</u>	<u>\$ 5,710</u>

## 19. STOCKHOLDERS' EQUITY

### Capital Stock

The Company's outstanding common stock as of January 1, 2010 amounted to NT\$7,889,358 thousand, divided into 788,936 thousand common shares at NT\$10.00 par value. In April 2010, the Company retired 15,000 thousand treasury shares at NT\$150,000 thousand. In June 2010, the stockholders approved the transfer of retained earnings amounting to NT\$386,968 thousand and employee bonuses amounting to NT\$50,206 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of March 31, 2011 increased to NT\$8,176,532 thousand (US\$278,052 thousand), divided into 817,653 thousand common shares at NT\$10.00 (US\$0.34) par value.

### Global Depositary Receipts

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

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

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

Taking into account the effect of stock dividends, the GDRs increased to 8,804.8 thousand units (35,219.1 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of March 31, 2011, there were 3,711.1 thousand units of GDRs redeemed, representing 14,844.2 thousand common shares, and the outstanding GDRs represented 20,374.9 thousand common shares or 2.52% of the Company's common shares.

## **Capital Surplus**

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

The additional paid-in capital was NT\$9,056,323 thousand as of January 1, 2010. In April 2010, the retirement of treasury stock caused a decrease of additional paid-in capital amounting to NT\$172,188 thousand. The bonus to employees of NT\$4,859,236 thousand for 2009 were approved in the stockholders' meeting in June 2010. Of the approved amount, NT\$1,943,694 thousand, representing 5,021 thousand common shares which was determined by fair value, would be distributed by common stock in 2010. The difference between par value and fair value of NT\$1,893,488 thousand was accounted for as additional paid-in capital in 2010. As a result, the additional paid-in capital as of March 31, 2011 was NT\$10,777,623 thousand (US\$366,505 thousand).

As of March 31, 2010 and 2011, the capital surplus from long-term equity-method investments were both NT\$18,411 thousand (US\$626 thousand).

The additional paid-in capital from a merger was NT\$25,189 thousand as of January 1, 2010. In April 2010, the retirement of treasury stock caused a decrease of additional paid-in capital from a merger amounting to NT\$479 thousand. As a result, the additional paid-in capital from a merger as of March 31, 2011 was NT\$24,710 thousand (US\$840 thousand).

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

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

The appropriation of retained earnings should be proposed by the board of directors and approved by the stockholders in their annual meeting.

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

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

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

As of April 19, 2011, the date of the accompanying independent accountants' report, the appropriation of the 2010 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed online through the Market Observation Post System on the Web site.

## 20. TREASURY STOCK

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

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

On October 29, 2010, the Company's board of directors passed a resolution to buy back 5,000 thousand and 5,000 thousand Company shares from the open market between November 1, 2010 and November 30, 2010, and between December 1, 2010 and December 31, 2010, respectively, with the repurchase price ranging from NT\$565 to NT\$850 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The Company bought back 5,000 thousand shares for NT\$3,986,503 thousand during the repurchase period. The related treasury stock information for the three months ended 31, 2010 and 2011 was as follows:

	(In Thousands of Shares)			
Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
<u>Three months ended March 31, 2010</u>				
To maintain the Company's credibility and shareholders' interest	-	15,000	-	15,000
<u>Three months ended March 31, 2010</u>				
For transferring shares to the Company's employees	9,786	-	-	9,786

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 stocks, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par, and realized capital reserve. In addition, the Company should not pledge its treasury shares nor exercise voting rights on the shares before their reissuance.

## 21. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

Function Expense Item	2010			2011					
	NT\$			NT\$			US\$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	\$ 638,315	\$ 1,808,997	\$ 2,447,312	\$ 1,438,872	\$ 4,146,098	\$ 5,584,970	\$ 48,930	\$ 140,993	\$ 189,923
Salary	542,717	1,683,666	2,226,383	1,213,497	3,956,814	5,170,311	41,266	134,556	175,822
Insurance	35,658	45,873	81,531	79,174	65,454	144,628	2,692	2,226	4,918
Pension cost	12,876	33,134	46,010	34,287	42,479	76,766	1,166	1,445	2,611
Other	47,064	46,324	93,388	111,914	81,351	193,265	3,806	2,766	6,572
Depreciation	71,922	80,560	152,482	116,836	93,074	209,910	3,973	3,165	7,138
Amortization	5,388	7,122	12,510	14,109	1,036	15,145	480	35	515

## 22. INCOME TAX

The Company's income tax returns through 2007 had been examined by the tax authorities. However, the Company disagreed with the tax authorities' assessment on its returns for 2001 to 2002 and applied for the administrative litigation of its returns. Nevertheless, under the conservatism guideline, the Company adjusted its income tax for the tax shortfall stated in the tax assessment notices.

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

Item Exempt from Corporate Income Tax	Exemption Period
Sales of pocket PCs (wireless) and smartphones	2005.12.20-2010.12.19
Sales of wireless or smartphone which has 3G or GPS function	2006.12.20-2011.12.19
Sales of wireless or smartphone which has 3G or GPS function	2007.12.20-2012.12.19
Sales of wireless or smartphone which has 3.5G or GPS function	2010.01.01-2014.12.31

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010. In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, also effective January 1, 2010. Income taxes payable for the three months ended March 31, 2010 and 2011 were computed as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Income before income tax	\$ 5,720,544	\$ 16,667,385	\$ 566,792
Gains on equity-method investments	(113,064)	(838,666)	(28,520)
Realized pension cost	(5,289)	(8,952)	(304)
Unrealized (gain) loss on (reversal) decline in value of inventory	(63,158)	343,313	11,675
Unrealized royalties	664,858	3,874,811	131,767
Realized exchange loss / unrealized exchange gain	(630,754)	(1,873,073)	(63,696)
Unrealized (realized) bad debt expenses	6,241	(40,313)	(1,371)
Capitalized expenses	(8,640)	(24,359)	(828)
Realized valuation (loss) gain on financial instruments	(50,193)	593,927	20,197
Unrealized warranty expenses	718,183	2,034,817	69,196

(Continued)

	<b>2010</b>	<b>2011</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Unrealized marketing expenses	\$ 2,005,247	\$ 5,490,481	\$ 186,710
Unrealized profit from intercompany transactions	34,008	37,303	1,269
(Realized) unrealized contingent losses of purchase orders	(48,181)	291,606	9,916
Other	<u>10,117</u>	<u>(54,483)</u>	<u>(1,853)</u>
Total income	8,239,919	26,493,797	900,950
Less: Tax-exempt income	<u>(7,358,310)</u>	<u>(22,799,802)</u>	<u>(775,332)</u>
Taxable income	881,609	3,693,995	125,618
Tax rate	<u>20%</u>	<u>17%</u>	<u>17%</u>
Estimated income tax provision	176,322	627,979	21,355
Add: Unappropriated earnings (additional 10% income tax)	-	-	-
Less: Investment research and development tax credits	<u>-</u>	<u>-</u>	<u>-</u>
Income tax payable determined pursuant to the Income Tax Law	<u>\$ 176,322</u>	<u>\$ 627,979</u>	<u>\$ 21,355</u>
Alternative minimum tax	\$ 815,684	\$ 2,649,179	\$ 90,088
Less: Prepaid and withheld income tax	(6,198)	(10,668)	(363)
Add: Prior years' income tax payable	<u>4,152,624</u>	<u>6,416,667</u>	<u>218,206</u>
Income tax payable	<u>\$ 4,962,110</u>	<u>\$ 9,055,178</u>	<u>\$ 307,931</u> (Concluded)

The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. As a result, the current income tax payable as of March 31, 2010 and 2011 should be NT\$815,684 thousand and NT\$2,649,179 thousand (US\$90,088 thousand), respectively.

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

	<b>2010</b>	<b>2011</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Temporary differences			
Provision for loss on decline in value of inventory	\$ 516,722	\$ 642,602	\$ 21,852
Unrealized reserve for warranty expenses	1,201,149	1,885,617	64,123
Capitalize expenses	38,575	70,270	2,390
Unrealized royalties	1,824,114	3,538,139	120,318
Unrealized marketing expenses	2,115,642	3,609,667	122,751
			(Continued)

	<b>2010</b>	<b>2011</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
Unrealized contingent losses of purchase orders	\$ 135,505	\$ 379,738	\$ 12,913
Unrealized valuation loss on financial instruments	-	24,421	830
Unrealized bad-debt expenses	148,547	57,499	1,955
Unrealized exchange loss	29,650	-	-
Other	1,401	1,752	60
Tax credit carryforwards	<u>3,056,328</u>	<u>3,141,129</u>	<u>106,818</u>
Total deferred tax asset	9,067,633	13,350,834	454,010
Less: Valuation allowance	<u>(7,054,471)</u>	<u>(8,896,426)</u>	<u>(302,533)</u>
Total deferred tax asset, net	2,013,162	4,454,408	151,477
Deferred tax liability			
Unrealized valuation gain on financial instruments	(13,665)	-	-
Unrealized exchange gain	-	(266,197)	(9,052)
Unrealized pension cost	<u>(28,589)</u>	<u>(28,543)</u>	<u>(971)</u>
	1,970,908	4,159,668	141,454
Less: Current portion	<u>(839,595)</u>	<u>(1,088,510)</u>	<u>(37,016)</u>
Deferred tax assets, noncurrent	<u>\$ 1,131,313</u>	<u>\$ 3,071,158</u>	<u>\$ 104,438</u> (Concluded)

Details of the tax credit carryforwards are as follows:

<b>Year of Occurrence</b>	<b>Validity Period</b>	<b>2010</b>	<b>2011</b>	
		<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
2007	2007-2011	\$ 201,506	\$ -	\$ -
2008	2008-2012	831,154	831,154	28,265
2009	2009-2013	<u>2,023,668</u>	<u>2,309,975</u>	<u>78,553</u>
		<u>\$ 3,056,328</u>	<u>\$ 3,141,129</u>	<u>\$ 106,818</u>

Before January 1, 2010, the investment and research and development tax credits can be carried forward for four years based on the related regulations of Income Tax Act in the ROC. The total credits used in each year cannot exceed half of the estimated income tax provision.

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.

Valuation allowance is based on management's evaluation of the amount of tax credits that can be carried forward for four years.

The income taxes for the three months ended March 31, 2010 and 2011 were as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 815,684	\$ 2,649,179	\$ 90,088
Increase in deferred income tax assets	<u>(93,567)</u>	<u>(814,658)</u>	<u>(27,703)</u>
Income tax	<u>\$ 722,117</u>	<u>\$ 1,834,521</u>	<u>\$ 62,385</u>

The integrated income tax information is as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account (ICA)	\$ 1,708,445	\$ 3,027,364	\$ 102,949
Unappropriated earnings from 1998	43,362,526	67,709,756	2302,544
Expected creditable ratio (including income tax payable)	13.12%	15.49%	15.49%

### 23. EARNINGS PER SHARE

Earnings per share (EPS) before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 783,430 thousand shares and 807,867 thousand shares for the three months ended March 31, 2010 and 2011, respectively. EPS for the three months ended March 31, 2010 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2010.

The Accounting Research and Development Foundation issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effects of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year. The related EPS information for the three months ended March 31, 2010 and 2011 were as follows:

	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
<u>Three months ended March 31, 2010</u>					
Basic EPS	\$ 5,720,544	\$ 4,998,427	783,430	<u>\$ 7.30</u>	<u>\$ 6.38</u>
Bonus to employees	-	-	<u>3,276</u>		
Diluted EPS	<u>\$ 5,720,544</u>	<u>\$ 4,998,427</u>	<u>786,706</u>	<u>\$ 7.27</u>	<u>\$ 6.35</u>

(Continued)



	Amount (Numerator)			EPS	
	Before	After	Shares (Denominator) (In Thousands)	Before	After
	Income Tax	Income Tax		Income Tax	Income Tax
	NT\$	NT\$		NT\$	NT\$
<u>Three months ended March 31, 2011</u>					
Basic EPS	\$16,667,385	\$14,832,864	807,867	<u>\$ 20.63</u>	<u>\$ 18.36</u>
Bonus to employees	-	-	2,978		
Diluted EPS	<u>\$16,667,385</u>	<u>\$14,832,864</u>	<u>810,845</u>	<u>\$ 20.56</u>	<u>\$ 18.29</u>
					(Concluded)

	Amount (Numerator)			EPS	
	Before	After	Shares (Denominator) (In Thousands)	Before	After
	Income Tax	Income Tax		Income Tax	Income Tax
	US\$	US\$		US\$	US\$
<u>Three months ended March 31, 2011</u>					
Basic EPS	\$ 566,792	\$ 504,407	807,867	<u>\$ 0.70</u>	<u>\$ 0.62</u>
Bonus to employees	-	-	2,978		
Diluted EPS	<u>\$ 566,792</u>	<u>\$ 504,407</u>	<u>810,845</u>	<u>\$ 0.70</u>	<u>\$ 0.62</u>

## 24. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

#### a. Nonderivative financial instruments

	March 31					
	2010		2011			
	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	\$ 2,158,855	\$ 2,158,855	\$ 442,557	\$ 15,050	\$ 442,557	\$ 15,050
Available-for-sale financial assets - noncurrent	313	313	530	18	530	18
Held-to-maturity financial assets - noncurrent	-	-	207,120	7,043	206,746	7,031
Financial assets carried at cost	501,192	501,192	515,861	17,543	515,861	17,543

#### b. Derivative financial instruments

	March 31					
	2010		2011			
	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	\$ 68,325	\$ 68,325	\$ -	\$ -	\$ -	\$ -
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	-	143,651	4,885	143,651	4,885

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

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

The financial instruments include neither refundable deposits nor guarantee deposits. The fair values of refundable deposits and guarantee deposits received are based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

The fair values of financial instruments at fair value through profit or loss, available-for-sale and held-to-maturity financial assets are based on quoted market prices in an active market, and their fair values can be reliably measured. If the securities do not have market prices, fair value is measured on the basis of financial or other information. The Company uses estimates and assumptions that are consistent with information that market participants would use in setting a price for these securities.

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

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

	Quoted Market Prices			Measurement Method		
	March 31			March 31		
	2010	2011	US\$	2010	2011	US\$
	NT\$	NT\$	(Note 3)	NT\$	NT\$	(Note 3)
<b>Assets</b>						
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ -	\$ 68,325	\$ -	\$ -
Available-for-sale financial assets - current	2,158,855	442,557	15,050	-	-	-
Available-for-sale financial assets - noncurrent	313	530	18	-	-	-
Held-to-maturity financial assets - noncurrent	-	206,746	7,031	-	-	-
Financial assets carried at cost	-	-	-	501,192	515,861	17,543
<b>Liabilities</b>						
Financial liabilities at fair value through profit or loss - current	-	-	-	-	143,651	4,885

There was no loss or gain recognized for the three months ended March 31, 2010 and 2011 on the fair value changes of derivatives with fair values estimated using valuation techniques. However, the Company recognized a gain of NT\$601 thousand (US\$20 thousand) under stockholders' equity for the changes in fair value of available-for-sale financial assets for the three months ended March 31, 2011.

As of March 31, 2010 and 2011, financial assets exposed to fair value interest rate risk amounted to NT\$0 thousand and NT\$207,120 thousand (US\$7,043 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$64,743,401 thousand and NT\$73,390,448 thousand (US\$2,495,722 thousand), respectively.

## Financial Risks

### a. Market risk

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

b. Credit risk

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

c. Cash flow risk

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

Pursuant to the regulations of the Securities and Futures Bureau, the contents of derivative contracts that subsidiaries entered into was being disclosed as follows:

Saffron Digital Ltd.

Saffron Digital Ltd. entered into derivative contracts to manage exposures due to exchange rate fluctuations. A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading, with the fair value determined using valuation techniques incorporating estimates, and with changes in fair value recognized directly in profit or loss for the period.

The Company acquired Saffron Digital Ltd. in January, 2011. Saffron Digital Ltd. had settled the forward exchange contracts as of March 31, 2011 and the realized settlement loss on derivative financial instruments was NT\$1,074 thousand (US\$37 thousand).

## 25. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

<u>Related Party</u>	<u>Relationship with the Company</u>
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
BandRich Inc.	Originally a subsidiary of the Company until July 2010 because of losing significant influence
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC Investment Corporation	Subsidiary
HTC I Investment Corporation	Subsidiary
Huada Digital Corporation	Subsidiary
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer (H.K.) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) Pty. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Philippines Corporation	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
PT. High Tech Computer Indonesia	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Thailand) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.

(Continued)

<u>Related Party</u>	<u>Relationship with the Company</u>
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Innovation Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Communication Co., Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC HK, Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Holding Cooperatief U.A.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Corporation (Shanghai WGQ)	Subsidiary of HTC HK, Limited.
HTC Electronics (Shanghai) Co., Ltd.	Subsidiary of HTC HK, Limited.
HTC Netherlands B.V.	Subsidiary of HTC Holding Cooperatief U.A.
HTC EUROPE CO., LTD.	Subsidiary of HTC. Netherlands B.V.
HTC BRASIL	Subsidiary of HTC. Netherlands B.V.
HTC Belgium BVBA/SPRL	Subsidiary of HTC. Netherlands B.V.
HTC NIPPON Corporation	Subsidiary of HTC. Netherlands B.V.
HTC FRANCE CORPORATION	Subsidiary of HTC. Netherlands B.V.
HTC South Eastern Europe Limited liability Company	Subsidiary of HTC. Netherlands B.V.
HTC Nordic ApS.	Subsidiary of HTC. Netherlands B.V.
HTC Italia SRL	Subsidiary of HTC. Netherlands B.V.
HTC Germany GmbH.	Subsidiary of HTC. Netherlands B.V.
HTC Iberia S.L.	Subsidiary of HTC. Netherlands B.V.
HTC Poland sp. z o.o.	Subsidiary of HTC. Netherlands B.V.
Saffron Media Group Ltd.	Subsidiary of HTC. Netherlands B.V.
HTC America Holding Inc.	Subsidiary of HTC EUROPE CO., LTD.
ABAXIA SAS	Subsidiary of HTC France Corporation
HTC America Inc.	Subsidiary of HTC America Holding Inc.
One & Company Design Inc.	Subsidiary of HTC America Holding Inc.
HTC America Innovation Inc.	Subsidiary of HTC America Holding, Inc.
BLRSoft	Subsidiary of ABAXIA SAS
Saffron Digital Ltd.	Subsidiary of Saffron Media Group Ltd.
Saffron Digital Inc.	Subsidiary of Saffron Media Group Ltd.
Employees' Welfare Committee	Employees' Welfare Committee of HTC Corporation
HTC Cultural and Educational Foundation	A non-profit organization of which the funds donated from the Company exceeds one third of the non-profit organization's total funds

(Concluded)

Major transactions with related parties are summarized below:

#### Purchases of Inventories and Services

<u>Related Party</u>	<u>Three Months Ended March 31</u>				
	<u>2010</u>		<u>2011</u>		<u>% of Total Net Purchases</u>
	<u>Amount</u>	<u>% of Total Net Purchases</u>	<u>Amount</u>	<u>% of Total Net Purchases</u>	
	<u>NT\$</u>		<u>NT\$</u>	<u>US\$</u>	
				<u>(Note 3)</u>	
Chander Electronics Corp.	\$ 28,383	-	\$ 113,719	\$ 3,867	-
HTC Electronics (Shanghai) Co., Ltd.	<u>33,869</u>	<u>-</u>	<u>67,486</u>	<u>2,295</u>	<u>-</u>
	<u>\$ 62,252</u>	<u>-</u>	<u>\$ 181,205</u>	<u>\$ 6,162</u>	<u>-</u>

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

## Sales and Services Provided

Related Party	Three Months Ended March 31				
	2010		2011		
	Amount	% of Total Revenues	Amount		% of Total Revenues
	NT\$		NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 243,373	1	\$ 48,695,957	\$ 1,655,959	48
HTC Communication Co., Ltd.	-	-	2,588,808	88,035	3
Employees' Welfare Committee	26,991	-	52,450	1,784	-
HTC EUROPE CO., LTD.	41,625	-	16,286	554	-
High Tech Computer Asia Pacific Pte. Ltd.	1,587	-	6,867	233	-
High Tech Computer (H.K.) Limited	13,122	-	5,532	188	-
Exedea Inc.	213,478	1	-	-	-
BandRich Inc.	6,735	-	-	-	-
Others	9,294	-	3,724	127	-
	<u>\$ 556,205</u>	<u>2</u>	<u>\$ 51,369,624</u>	<u>\$ 1,746,880</u>	<u>51</u>

The selling prices for products sold to related parties were similar to those for sales to third parties, except those for HTC America Inc., HTC EUROPE CO., LTD. and Employees' Welfare Committee. Those products sold to HTC Communication Co., Ltd. were not sold to other parties and could not be comparative. The collection terms for products sold to related parties were similar to those for sales to third parties, except those for HTC EUROPE CO., LTD.

## Accounts Receivable

Related Party	March 31				
	2010		2011		
	Amount	% of Total Accounts Receivable	Amount		% of Total Accounts Receivable
	NT\$		NT\$	US\$ (Note 3)	
Accounts receivable					
HTC America Inc.	\$ 331,384	1	\$ 31,136,355	\$ 1,058,826	50
HTC Communication Co., Ltd.	-	-	1,419,837	48,283	2
HTC EUROPE CO., LTD.	61,546	-	61,613	2,095	-
High Tech Computer Asia Pacific Pte. Ltd.	7,339	-	14,132	481	-
HTC (Australia and New Zealand) Pty. Ltd.	476	-	9,831	334	-
HTC NIPPON Corporation	491	-	6,509	221	-
HTC Corporation (Shanghai WGQ)	248	-	4,855	165	-
High Tech Computer (H.K.) Limited	9,262	-	2,195	75	-

(Continued)

Related Party	March 31				
	2010		2011		
	Amount	% of Total Accounts Receivable	Amount		% of Total Accounts Receivable
	NT\$		NT\$	US\$ (Note 3)	
Exedea Inc.	\$ 207,027	1	\$ -	\$ -	-
Employees' Welfare Committee	18,082	-	-	-	-
Others	<u>93</u>	<u>-</u>	<u>2,224</u>	<u>76</u>	<u>-</u>
	<u>\$ 635,948</u>	<u>2</u>	<u>\$ 32,657,551</u>	<u>\$ 1,110,556</u>	<u>52</u>

(Concluded)

### Accounts Payable

Related Party	March 31				
	2010		2011		
	Amount	% of Total Accounts Payable	Amount		% of Total Accounts Payable
	NT\$		NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 5,786	-	\$ 3,032,017	\$ 103,107	5
Chander Electronics Corp.	33,649	-	128,179	4,359	-
Others	<u>683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 40,118</u>	<u>-</u>	<u>\$ 3,160,196</u>	<u>\$ 107,466</u>	<u>5</u>

### Other Receivable

Related Party	March 31				
	2010		2011		
	Amount	% of Total Other Receivable	Amount		% of Total Other Receivable
	NT\$		NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 9,188	5	\$ 55,669	\$ 1,893	4
HTC EUROPE CO., LTD.	193	-	1,009	34	-
High Tech Computer Asia Pacific Pte. Ltd.	-	-	765	26	-
Others	<u>627</u>	<u>-</u>	<u>319</u>	<u>11</u>	<u>-</u>
	<u>\$ 10,008</u>	<u>5</u>	<u>\$ 57,762</u>	<u>\$ 1,964</u>	<u>4</u>

## Prepaid Expenses

Related Party	March 31				
	2010		2011		
	Amount	% of Total	Amount		% of Total
	NT\$	Prepayment	NT\$	US\$	Prepayment
				(Note 3)	
HTC America Innovation Inc.	\$ -	-	\$ 140,224	\$ 4,768	3
HTC NIPPON Corporation	24,552	1	23,075	785	1
HTC America Inc.	81,693	3	-	-	-
Others	3,664	-	5,589	190	-
	<u>\$ 109,909</u>	<u>4</u>	<u>\$ 168,888</u>	<u>\$ 5,743</u>	<u>4</u>

## Accrued Expenses

Related Party	March 31				
	2010		2011		
	Amount	% of Total	Amount		% of Total
	NT\$	Accrued Expenses	NT\$	US\$	Accrued Expenses
				(Note 3)	
HTC EUROPE CO., LTD.	\$ 555,843	3	\$ 982,837	\$ 33,422	2
HTC Cultural and Educational Foundation	217,800	1	217,800	7,407	1
High Tech Computer Asia Pacific Pte. Ltd.	83,035	1	210,710	7,165	1
HTC (Australia and New Zealand) Pty. Ltd.	23,313	-	201,734	6,860	1
High Tech Computer (H.K.) Limited	45,408	-	135,805	4,618	-
HTC India Private Limited	27,627	-	132,049	4,490	-
HTC Belgium BVBA/SPRL	39,913	-	47,199	1,605	-
HTC (Thailand) Ltd.	13,546	-	40,869	1,390	-
HTC America Innovation Inc. Communication Global Certification Inc	16,436	-	35,451	1,206	-
HTC Nordic ApS.	-	-	16,780	571	-
HTC Germany GmbH.	-	-	15,169	516	-
ABAXIA SAS	-	-	12,933	440	-
HTC FRANCE CORPORATION	-	-	12,685	431	-
HTC Malaysia Sdn. Bhd.	15,885	-	10,432	355	-
HTC America Inc.	192,216	1	-	-	-
Others	16,255	-	59,931	2,038	-
	<u>\$ 1,247,277</u>	<u>6</u>	<u>\$ 2,168,405</u>	<u>\$ 73,739</u>	<u>5</u>

## Other Payables to Related Parties

Related Party	March 31				
	2010		2011		
	Amount	% of Total Other Payables	Amount	US\$	% of Total Other Payables
NT\$		NT\$	(Note 3)		
HTC America Innovation Inc.	\$ -	-	\$ 85,589	\$ 2,911	32
HTC America Inc.	410,481	59	54,801	1,864	21
High Tech Computer Asia Pacific Pte. Ltd.	99,068	14	47,671	1,621	18
HTC EUROPE CO., LTD.	41,508	6	33,699	1,146	13
HTC Corporation (Shanghai WGQ)	7,531	1	23,150	787	9
Saffron Digital Ltd.	-	-	13,544	461	5
HTC NIPPON Corporation	5,164	1	6,097	207	2
High Tech Computer (H.K.) Limited	4,449	1	157	5	-
Others	72	-	628	21	-
	<u>\$ 568,273</u>	<u>82</u>	<u>\$ 265,336</u>	<u>\$ 9,023</u>	<u>100</u>

## Agency Receipts

Related Party	March 31				
	2010		2011		
	Amount	% of Total Advance Receipts	Amount	US\$	% of Total Advance Receipts
NT\$		NT\$	(Note 3)		
BandRich Inc.	<u>\$ 41,643</u>	<u>10</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

## Outsourcing Expenses

Related Party	Three Months Ended March 31				
	2010		2011		
	Amount	% of Total Outsourcing Expenses	Amount	US\$	% of Total Outsourcing Expenses
NT\$		NT\$	(Note 3)		
HTC Electronics (Shanghai) Co., Ltd.	<u>\$ 58,115</u>	<u>68</u>	<u>\$ 4,696,337</u>	<u>\$ 159,704</u>	<u>99</u>



## Service Warranty Expenses

Related Party	Three Months Ended March 31				
	2010		2011		
	Amount NT\$	% of Warranty Expenses	Amount NT\$	US\$ (Note 3)	% of Warranty Expenses
HTC EUROPE CO., LTD.	\$ 58,291	3	\$ 76,848	\$ 2,613	2
HTC Corporation (Shanghai WGQ)	12,922	1	38,833	1,321	1
High Tech Computer Asia Pacific Pte. Ltd.	10,401	1	15,322	521	1
High Tech Computer (H.K.) Limited	15,366	1	8,360	284	-
HTC America Inc.	90,344	6	-	-	-
Other.	504	-	8,141	277	-
	<u>\$ 187,828</u>	<u>12</u>	<u>\$ 147,504</u>	<u>\$ 5,016</u>	<u>4</u>

Warranty expense resulted from authorizing the above related parties to provide after-sales service.

## Commission Expenses

Related Party	Three Months Ended March 31				
	2010		2011		
	Amount NT\$	% of Commission Expenses	Amount NT\$	US\$ (Note 3)	% of Commission Expenses
HTC EUROPE CO., LTD.	\$ 604,209	81	\$ 1,551,893	\$ 52,774	87
HTC Belgium BVBA/SPRL	139,534	19	63,715	2,167	4
HTC Nordic ApS.	-	-	46,269	1,573	2
HTC Germany GmbH.	-	-	45,289	1,540	2
HTC FRANCE CORPORATION	-	-	36,896	1,255	2
Others	-	-	53,403	1,816	3
	<u>\$ 743,743</u>	<u>100</u>	<u>\$ 1,797,465</u>	<u>\$ 61,125</u>	<u>100</u>

Commission expenses resulted from authorizing the related parties to expand business overseas.

## Service and Marketing Fees

Related Party	Three Months Ended March 31				
	2010		2011		
	Amount	% of Total Service Fees	Amount		% of Total Service Fees
			NT\$	NT\$	
High Tech Computer Asia Pacific Pte. Ltd.	\$ 58,164	3	\$ 196,432	\$ 6,680	4
HTC America Innovation Inc.	-	-	177,857	6,048	4
HTC (Australia and New Zealand) Pty. Ltd.	30,322	1	140,763	4,787	3
HTC India Private Limited	26,170	1	103,488	3,519	2
High Tech Computer (H.K.) Limited	40,199	2	98,939	3,365	2
HTC Innovation Limited	3,356	-	62,994	2,142	2
Communication Global Certification Inc.	28,797	1	47,496	1,615	1
HTC Malaysia Sdn. Bhd.	16,648	1	39,046	1,328	1
One & Company Design Inc.	25,861	1	36,589	1,244	1
HTC (Thailand) Ltd.	13,974	1	34,228	1,164	1
HTC NIPPON Corporation	27,036	1	34,111	1,160	1
ABAXIA SAS	-	-	33,985	1,156	1
HTC BRASIL	30,066	1	20,098	683	-
HTC America Inc.	692,950	29	-	-	-
HTC EUROPE CO., LTD.	6,640	-	-	-	-
Others	14,584	1	15,494	527	-
	<u>\$ 1,014,767</u>	<u>43</u>	<u>\$ 1,041,520</u>	<u>\$ 35,418</u>	<u>23</u>

## Other Revenues

Related Party	Three Months Ended March 31				
	2010		2011		
	Amount	% to Total Other Revenues	Amount		% to Total Other Revenues
			NT\$	NT\$	
BandRich Inc.	<u>\$ 200</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

## Leasing - Lessee

### Operating expense - rental expense

Related Party	Three Months Ended March 31				
	2010		2011		
	Amount	% of Rental Expense	Amount		% of Rental Expense
			NT\$	NT\$	
VIA Technologies Inc.	<u>\$ 3,120</u>	<u>23</u>	<u>\$ 1,302</u>	<u>\$ 44</u>	<u>4</u>

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

**Endorsement/Guarantee Provided**

Note 27 has more information.

**26. PLEDGED ASSETS**

As of March 31, 2010 and 2011, the Company had provided time deposits of NT\$63,900 thousand and NT\$63,900 thousand (US\$2,173 thousand) to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

**27. COMMITMENTS AND CONTINGENCIES**

As of March 31, 2011, unused letters of credit amounted to EUR789 thousand.

The Company provided NT\$441,098 thousand (US\$15,000 thousand) guarantee for HTC Electronics (Shanghai) Co., Ltd.'s bank loans. HTC Electronics (Shanghai) Co., Ltd. has drawn down NT\$374,965 thousand (US\$12,751 thousand) from banks within the guarantee amount as of March 31, 2011.

**28. SIGNIFICANT CONTRACTS**

**Patent Agreements**

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

Contractor	Contract Term	Description
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates:  a. If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents.	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>
	b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 to the expiry dates of these patents in the agreement.	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 1, 2004 to the expiry dates of these patents in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

(Concluded)

## 29. OTHER EVENTS

### Lawsuit

- a. In April 2008, ICom GMBH & CO., KG (“ICom”) filed a multi-claim lawsuit against the Company with the District Court of Mannheim in Germany, alleging that the Company infringed ICom’s patents. In February 2009, the court granted a ruling on patent #100 (EP 186189B1) which granted ICom’s request for an injunction to prevent the Company from importing devices into Germany, with the serving of this injunction pending ICom’s placement with the court of a security bond of €1 million. The Company appealed this decision to the court of Appeal in Karlsruhe and requested a stay of the injunction pending the outcome of this appeal. In May 2009, the court of Appeal in Karlsruhe issued a stay of the injunction and enforced this stay after the Company submitted to the court a bank guarantee amounting to €7.5 million, the amount of the required security bond. Thus, the Company has continued to ship products regularly to Germany.

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

In October, 2010, ICom filed a new complaint against the Company alleging patent infringement of patent #114 (EP 1226692B1) in District Court of Dusseldorf. The Company has previously filed patent invalidity action against patent #114(EP 1226692B1) in EPO and patent #114(EP 1226692B1) has already been revoked by EPO and ICom is appealing EPO’s decision. In December 2010, the #100 (EP 186189B1) was upheld in the Federal Patents Court; however, the chances of ICom proving infringement are very low because of the revised very restricted claim. The risk of this newly asserted patent is very low. As of April 19, 2011, the date of the accompanying independent accountants’ review report, there had been no critical hearing nor had a court decision been made, except for the above.

- b. In March 2010, Apple Inc. (“Apple”) filed a lawsuit against the Company, H.T.C. (B.V.I.) Corp., HTC America, Inc. and Exedeia, Inc. (“the Company”) concurrently with the U.S. International Trade Commission (“ITC”) and U.S. District Court in Delaware (“Delaware court”), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing to and selling devices in the United States and damage compensation, respectively. The Company, subsequently filed ITC investigation and filed counterclaim with Delaware court against Apple for patent infringements. The Company requested ITC and Delaware court to prevent Apple from importing and selling devices in the United States and damage compensation, respectively. The Administrative Law Judge has ordered that an Initial Determination shall be due on August 5, 2011, and that the target date for completing the investigation shall be December 6, 2011. As of April 19, 2011, the date of the accompanying independent accountants’ review report, there had been no critical hearing nor had a court decision been made.
- c. The Company had examined their circumstances and related information, including past experiences, expert opinions, results of the evaluation of contingencies and estimation of the degree of actual occurrence, and concluded that the amounts of contingent assets or liabilities were appropriately accounted.

### Construction for Taipei R&D headquarter

In September 2009, the Company’s board of directors resolved to build the Taipei R&D headquarter in Xindian City and the land was bought from Yulon Motors Ltd. The estimated budget for the construction is NT\$3,380,000 thousand for a total floor space of 92 thousand square meters. Construction is scheduled to be completed by August 2011 (Note 15 has more information).

## Other

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

	March 31			
	2010		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 875,987	31.80	\$ 2,080,620	29.4065
EUR	203,567	42.72	493,617	41.7205
GBP	16,936	48.03	72,963	47.4577
JPY	276,736	0.3410	1,855,020	0.3549
Investments accounted for by the equity method				
USD	56,459	31.80	86,901	29.4065
SGD	150,468	22.72	435,494	23.3367
<u>Financial liabilities</u>				
Monetary items				
USD	1,037,975	31.80	2,748,725	29.4065
EUR	214,855	42.72	497,055	41.7205
GBP	23,386	48.03	64,424	47.4577
JPY	331,368	0.3410	1,488,625	0.3549

## 30. SEGMENT DISCLOSURES

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

Selected financial information was as follows:

### Information about geographical areas

The Company's non-current assets located in an individual foreign country were immaterial. Revenues from external customers attributed to an individual foreign country for the three months ended March 31, 2010 and 2011 were as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Taiwan	\$ 1,241,786	\$ 4,266,242	\$ 145,078
Country X	18,038,593	49,307,200	1,676,745
Country Y	2,827,426	8,144,623	276,967
Country Z	1,883,733	5,375,186	182,789
Others	13,705,857	33,925,697	1,153,680
	<u>\$ 37,697,395</u>	<u>\$ 101,018,948</u>	<u>\$ 3,435,259</u>

### Information about major customers

Revenues from transactions with a single external customer amount to 10 percent or more for the three months ended March 31, 2010 and 2011 were as follows:

Customer	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
A	\$ 243,373	\$ 48,695,957	\$ 1,655,959
B	7,646,985	4,017,286	136,612
C	3,791,311	8,796	299
D	<u>5,701,121</u>	<u>66</u>	<u>2</u>
	<u>\$ 17,382,790</u>	<u>\$ 52,722,105</u>	<u>\$ 1,792,872</u>