

HTC Corporation

**Financial Statements for the
Nine Months Ended September 30, 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 September 30, 2010 and 2011, and the related statements of income and cash flows for the nine 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 nine months ended September 30, 2010 and 2011 and have issued unqualified review reports, respectively.

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

October 18, 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 SEPTEMBER 30, 2010 AND 2011 (In Thousands, Except Par Value) (Reviewed, Not Audited)

ASSETS	2010			2011			LIABILITIES AND STOCKHOLDERS' EQUITY	2010			2011		
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents (Notes 2 and 5)	\$ 60,509,634	\$ 86,534,104	\$ 2,838,533				Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	\$ 411,269	\$ -	\$ -			
Financial assets at fair value through profit or loss - current (Notes 2, 6 and 24)	-	220,609	7,237				Notes and accounts payable	45,043,096	80,741,371	2,648,517			
Available-for-sale financial assets - current (Notes 2 and 7)	401,400	734,698	24,100				Notes and accounts payable to related parties (Note 25)	1,667,197	3,512,603	115,222			
Accounts receivable, net (Notes 2 and 8)	23,283,575	35,816,172	1,174,859				Income tax payable (Notes 2 and 22)	3,904,760	8,949,877	293,578			
Accounts receivable from related parties, net (Notes 2 and 25)	22,934,589	44,685,159	1,465,784				Accrued expenses (Notes 16 and 25)	25,444,891	49,917,483	1,637,417			
Other current financial assets (Notes 8 and 25)	730,283	1,848,324	60,630				Payable for purchase of equipment	140,580	352,887	11,576			
Inventories (Notes 2 and 10)	16,638,667	27,762,928	910,693				Other current liabilities (Notes 2, 17 and 25)	<u>9,840,702</u>	<u>15,510,012</u>	<u>508,767</u>			
Prepayments (Notes 11 and 25)	2,134,512	5,184,691	170,071				Total current liabilities	<u>86,452,495</u>	<u>158,984,233</u>	<u>5,215,077</u>			
Deferred income tax assets (Notes 2 and 22)	971,529	1,748,115	57,343				OTHER LIABILITIES						
Other current assets	<u>312,553</u>	<u>803,169</u>	<u>26,345</u>				Guarantee deposits received	<u>628</u>	<u>628</u>	<u>21</u>			
Total current assets	<u>127,916,742</u>	<u>205,337,969</u>	<u>6,735,595</u>				Total liabilities	<u>86,453,123</u>	<u>158,984,861</u>	<u>5,215,098</u>			
LONG-TERM INVESTMENTS							STOCKHOLDERS' EQUITY (Note 19)						
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	436	406	13				Capital stock - NT\$10.00 par value						
Held-to-maturity financial assets - noncurrent (Notes 2 and 12)	-	205,441	6,739				Authorized: 1,000,000 thousand shares						
Financial assets carried at cost (Notes 2 and 13)	515,861	515,861	16,922				Issued and outstanding: 817,653 thousand shares in 2010 and 862,052 thousand shares in 2011	8,176,532	8,620,521	282,774			
Investments accounted for by the equity method (Notes 2 and 14)	7,485,111	17,109,111	561,221				Capital surplus						
Prepayments for long-term investments (Notes 2 and 14)	<u>2,299,815</u>	<u>349,002</u>	<u>11,448</u>				Additional paid-in capital - issuance of shares in excess of par	10,777,623	14,983,419	491,493			
Total long-term investments	<u>10,301,223</u>	<u>18,179,821</u>	<u>596,343</u>				Treasury stock transactions	-	1,750,767	57,429			
PROPERTIES (Notes 2, 15 and 25)							Long-term equity investments	18,411	18,411	604			
Cost							Merger	24,710	24,710	811			
Land	5,387,718	7,462,281	244,781				Expired stock options	-	37,503	1,230			
Buildings and structures	3,251,318	3,645,745	119,589				Retained earnings						
Machinery and equipment	4,148,114	6,449,665	211,565				Legal reserve	10,273,674	10,273,674	337,002			
Molding equipment	172,632	172,632	5,663				Special reserve	-	580,856	19,054			
Computer equipment	324,035	362,979	11,907				Accumulated earnings	38,080,198	73,033,196	2,395,670			
Transportation equipment	2,732	6,570	216				Other equity						
Furniture and fixtures	139,510	198,346	6,506				Cumulative translation adjustments (Note 2)	(27,300)	312,933	10,265			
Leased assets	4,712	4,712	155				Net loss not recognized as pension cost	(34)	(121)	(4)			
Leasehold improvements	<u>98,646</u>	<u>206,579</u>	<u>6,776</u>				Unrealized (loss) gain on financial instruments (Notes 2 and 24)	(1,535)	1,733	57			
Less: Accumulated depreciation	13,529,417	18,509,509	607,158				Treasury stock (Note 20)	<u>(2,865,990)</u>	<u>(18,824,770)</u>	<u>(617,499)</u>			
Prepayments for construction-in-progress and equipment-in-transit	<u>636,389</u>	<u>1,740,308</u>	<u>57,086</u>				Total stockholders' equity	<u>64,456,289</u>	<u>90,812,832</u>	<u>2,978,886</u>			
Properties, net	<u>9,403,763</u>	<u>14,661,485</u>	<u>480,933</u>										
INTANGIBLE ASSETS													
Patents (Note 2)	-	<u>2,135,822</u>	<u>70,060</u>										
OTHER ASSETS													
Refundable deposits	71,309	77,625	2,546										
Deferred charges (Note 2)	29,083	9,421	309										
Deferred income tax assets (Notes 2 and 22)	1,707,259	4,046,725	132,743										
Restricted assets - noncurrent (Note 26)	63,900	63,900	2,096										
Other (Notes 2, 11 and 18)	<u>1,416,133</u>	<u>5,284,925</u>	<u>173,359</u>										
Total other assets	<u>3,287,684</u>	<u>9,482,596</u>	<u>311,053</u>										
TOTAL	<u>\$ 150,909,412</u>	<u>\$ 249,797,693</u>	<u>\$ 8,193,984</u>				TOTAL	<u>\$ 150,909,412</u>	<u>\$ 249,797,693</u>	<u>\$ 8,193,984</u>			

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

HTC CORPORATION

STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2011 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$ 172,179,859	\$ 356,253,383	\$ 11,685,994
COST OF REVENUES (Notes 10, 21 and 25)	<u>122,126,295</u>	<u>260,612,238</u>	<u>8,548,727</u>
GROSS PROFIT	50,053,564	95,641,145	3,137,267
UNREALIZED GAIN FROM INTERCOMPANY TRANSACTIONS	(84,224)	(1,003,790)	(32,927)
REALIZED GAIN FROM INTERCOMPANY TRANSACTIONS	<u>108,150</u>	<u>345,455</u>	<u>11,332</u>
REALIZED GROSS PROFIT	<u>50,077,490</u>	<u>94,982,810</u>	<u>3,115,672</u>
OPERATING EXPENSES (Notes 21 and 25)			
Selling and marketing	12,783,025	23,536,107	772,043
General and administrative	3,007,019	4,227,422	138,670
Research and development	<u>7,999,913</u>	<u>14,008,342</u>	<u>459,508</u>
Total operating expenses	<u>23,789,957</u>	<u>41,771,871</u>	<u>1,370,221</u>
OPERATING INCOME	<u>26,287,533</u>	<u>53,210,939</u>	<u>1,745,451</u>
NONOPERATING INCOME AND GAINS			
Interest income	210,834	456,316	14,968
Gains on equity-method investment (Notes 2 and 14)	790,476	2,119,825	69,536
Gains on sale of investments, net	3,001	29	1
Exchange gains (Note 2)	728,381	1,304,025	42,775
Valuation gain on financial assets, net (Notes 2 and 6)	-	220,609	7,237
Other	<u>263,446</u>	<u>173,285</u>	<u>5,684</u>
Total nonoperating income and gains	<u>1,996,138</u>	<u>4,274,089</u>	<u>140,201</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	38	10,039	329
Loss on disposal of properties	139	-	-
Impairment loss (Notes 2 and 13)	1,192	-	-

(Continued)

HTC CORPORATION

STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2011 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	2010		2011	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Valuation loss on financial instruments, net (Notes 2 and 6)	\$ 411,269	\$ -	\$ -	
Other	<u>26,699</u>	<u>9,025</u>	<u>296</u>	
Total nonoperating expenses and losses	<u>439,337</u>	<u>19,064</u>	<u>625</u>	
INCOME BEFORE INCOME TAX	27,844,334	57,465,964	1,885,027	
INCOME TAX (Notes 2 and 22)	<u>(3,107,428)</u>	<u>(6,433,781)</u>	<u>(211,044)</u>	
NET INCOME	<u>\$ 24,736,906</u>	<u>\$ 51,032,183</u>	<u>\$ 1,673,983</u>	
	2010		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>	<u>US\$ (Note 3)</u>
BASIC EARNINGS PER SHARE (Note 23)	<u>\$ 32.46</u>	<u>\$ 28.84</u>	<u>\$ 67.79</u>	<u>\$ 2.22</u>
DILUTED EARNINGS PER SHARE (Note 23)	<u>\$ 32.16</u>	<u>\$ 28.57</u>	<u>\$ 67.01</u>	<u>\$ 2.20</u>
	<u>\$ 60.20</u>	<u>\$ 1.97</u>	<u>\$ 59.51</u>	<u>\$ 1.95</u>

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

(Concluded)

HTC CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2011 (In Thousands) (Reviewed, Not Audited)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 24,736,906	\$ 51,032,183	\$ 1,673,983
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	450,217	667,045	21,881
Amortization	40,690	265,396	8,706
Compensation cost recognized for the transfer of treasury stock to employees	-	1,788,270	58,659
Distribution of bonuses to employees of subsidiaries	(157,007)	(578,310)	(18,970)
Amortization of premium on financial assets	-	2,505	82
Prepaid pension cost	(15,953)	(19,623)	(644)
Gain on equity-method investments	(790,476)	(2,119,825)	(69,536)
Cash dividends received from equity - method investees	480	1,786	59
Loss on disposal of properties, net	139	-	-
Transfer of properties to expenses	532	59	2
Gains on sale of investments, net	(3,001)	(29)	(1)
Impairment loss	1,192	-	-
Deferred income tax assets	(801,447)	(2,449,830)	(80,360)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	429,401	229,667	7,534
Accounts receivable	2,042,653	(637,134)	(20,900)
Accounts receivable from related parties	(20,690,039)	(16,498,768)	(541,201)
Other current financial assets	(496,082)	(1,130,688)	(37,089)
Inventories	(11,899,968)	(5,842,436)	(191,646)
Prepayments	1,216,979	(2,837,074)	(93,063)
Other current assets	(185,773)	(346,115)	(11,353)
Other assets - other	580,643	(2,622,201)	(86,015)
Notes and accounts payable	20,246,450	22,320,447	732,166
Notes and accounts payable to related parties	1,581,521	2,165,622	71,038
Income tax payable	(247,864)	2,533,210	83,095
Accrued expenses	10,260,611	22,499,705	738,046
Other current liabilities	2,569,528	4,336,206	142,238
Net cash provided by operating activities	<u>28,870,332</u>	<u>72,760,068</u>	<u>2,386,711</u>

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HTC CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2011 (In Thousands) (Reviewed, Not Audited)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	\$ (3,511,180)	\$ (490,000)	\$ (16,073)
Proceeds of the sale of available-for-sale financial assets	5,610,175	200,029	6,561
Increase in investments accounted for by the equity method	(2,889,471)	(3,879,644)	(127,262)
Purchase of properties	(1,421,465)	(4,302,231)	(141,124)
(Increase) decrease in refundable deposits	(2,143)	1,572	52
Acquisition of Intangible assets	<u>-</u>	<u>(2,174,400)</u>	<u>(71,326)</u>
Net cash used in investing activities	<u>(2,214,084)</u>	<u>(10,644,674)</u>	<u>(349,172)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in guarantee deposits received	(582)	-	-
Cash dividends	(20,122,332)	(29,891,089)	(980,502)
Transfer treasury stock to employees	-	4,113,821	134,944
Purchase of treasury stock	<u>(7,700,164)</u>	<u>(16,086,098)</u>	<u>(527,664)</u>
Net cash used in financing activities	<u>(27,823,078)</u>	<u>(41,863,366)</u>	<u>(1,373,222)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,166,830)	20,252,028	664,317
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>61,676,464</u>	<u>66,282,076</u>	<u>2,174,216</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 60,509,634</u>	<u>\$ 86,534,104</u>	<u>\$ 2,838,533</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	<u>\$ 38</u>	<u>\$ 10,039</u>	<u>\$ 329</u>
Income tax	<u>\$ 4,156,739</u>	<u>\$ 6,350,401</u>	<u>\$ 208,309</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of retained earnings to common stock	<u>\$ 386,968</u>	<u>\$ 403,934</u>	<u>\$ 13,250</u>
Transfer of assets leased to others to properties	<u>\$ 48,135</u>	<u>\$ 50,828</u>	<u>\$ 1,667</u>
Retirement of treasury stock	<u>\$ 4,834,174</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of accrued stock bonus to employees to common stock and additional paid-in capital	<u>\$ 1,943,694</u>	<u>\$ 4,245,851</u>	<u>\$ 139,275</u>

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HTC CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2011 (In Thousands) (Reviewed, Not Audited)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
INCREASE IN LONG-TERM INVESTMENTS			
Increase in investments accounted for by the equity method	\$ 2,891,483	\$ 3,884,907	\$ 127,435
Increase in payable for purchase of investments	<u>(2,012)</u>	<u>(5,263)</u>	<u>(173)</u>
Cash paid for increase in long-term investments	<u>\$ 2,889,471</u>	<u>\$ 3,879,644</u>	<u>\$ 127,262</u>
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 1,492,339	\$ 4,336,531	\$ 142,249
Increase in payable for purchase of equipment	(71,674)	(34,300)	(1,125)
Decrease in lease payable	<u>800</u>	<u>-</u>	<u>-</u>
Cash paid for purchase of properties	<u>\$ 1,421,465</u>	<u>\$ 4,302,231</u>	<u>\$ 141,124</u>

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

(Concluded)

HTC CORPORATION

NOTES TO FINANCIAL STATEMENTS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2011 (In Thousands, Unless Stated Otherwise) (Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

The Company had 10,444 and 14,150 employees as of September 30, 2010 and 2011, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Foreign Currencies

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

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

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

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

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

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

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

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

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

Accounting Estimates

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

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

Current/Noncurrent Assets and Liabilities

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

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 GrTai 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 collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that the impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

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

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

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

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

Inventories

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

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

Investments Accounted for by the Equity Method

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

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

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

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

Properties

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

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

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

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

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

Stock-based Compensation

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

Treasury Stock

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

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

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

Reclassifications

Certain 2010 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the nine months ended September 30, 2011.

3. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2011 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$30.4855 to US\$1.00 quoted by the Reuters on September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2010 to conform to the disclosures as of and for the nine months ended September 30, 2011.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 1,000	\$ 1,000	\$ 33
Cash in banks	8,587,132	29,644,336	972,407
Time deposits	<u>51,921,502</u>	<u>56,888,768</u>	<u>1,866,093</u>
	<u>\$ 60,509,634</u>	<u>\$ 86,534,104</u>	<u>\$ 2,838,533</u>

On time deposits, interest rates ranged from 0.10% to 1.03% and 0.33% to 1.345% as of September 30, 2010 and 2011, respectively.

On preferential deposits, interest rates ranged from 0.08% to 4.20% and 0.15% to 1.15% as of September 30, 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 September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial assets			
Exchange contracts	\$ -	\$ 220,609	\$ 7,237
Derivatives - financial liabilities			
Exchange contracts	\$ 411,269	\$ -	\$ -

The Company had derivative transactions during the nine months ended September 30, 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 nine months ended September 30, 2010 and 2011. Outstanding forward exchange contracts as of September 30, 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	2010.10.06-2010.11.26	EUR 221,000
Forward exchange contracts	Sell	GBP/USD	2010.10.13-2010.11.10	GBP 7,500
Forward exchange contracts	Sell	USD/NTD	2010.10.08-2010.11.17	US\$ 123,000
Forward exchange contracts	Buy	USD/JPY	2010.10.20-2010.11.24	US\$ 6,979
	<u>2011</u>			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2011.10.05-2011.12.21	EUR 271,000
Forward exchange contracts	Sell	GBP/USD	2011.10.05-2011.10.26	GBP 22,710
Forward exchange contracts	Buy	USD/CAD	2011.10.05-2011.11.30	US\$ 5,259

Net loss on derivative financial instruments for the nine months ended September 30, 2010 was NT\$42,240 thousand, including realized settlement gain of NT\$369,029 thousand and valuation loss of NT\$411,269 thousand. Net loss on derivative financial instruments for the nine months ended September 30, 2011 was NT\$366,529 thousand (US\$12,023 thousand), including realized settlement loss of NT\$587,138 thousand (US\$19,260 thousand) and valuation gain of NT\$220,609 thousand (US\$7,237 thousand). Note 24 have more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ 401,400	\$ 734,698	\$ 24,100
Domestic quoted stocks	436	406	13
Less: Current portion	<u>(401,400)</u>	<u>(734,698)</u>	<u>(24,100)</u>
	<u>\$ 436</u>	<u>\$ 406</u>	<u>\$ 13</u>

8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Accounts receivable	\$ 24,292,066	\$ 37,370,180	\$1,225,834
Less: Allowance for doubtful accounts	<u>(1,008,491)</u>	<u>(1,554,008)</u>	<u>(50,975)</u>
	<u>\$ 23,283,575</u>	<u>\$ 35,816,172</u>	<u>\$1,174,859</u>

9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables (Note 25)	\$ 539,753	\$ 1,511,469	\$ 49,580
Interest receivable	11,173	23,399	768
Agency payments	<u>179,357</u>	<u>313,456</u>	<u>10,282</u>
	<u>\$ 730,283</u>	<u>\$ 1,848,324</u>	<u>\$ 60,630</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 September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 1,370,790	\$ 653,027	\$ 21,421
Work-in-process	3,285,764	8,094,024	265,504
Raw materials	11,844,437	18,854,710	618,481
Goods in transit	<u>137,676</u>	<u>161,167</u>	<u>5,287</u>
	<u>\$ 16,638,667</u>	<u>\$ 27,762,928</u>	<u>\$ 910,693</u>

As of September 30, 2010 and 2011, the allowance for inventory devaluation was NT\$3,007,981 thousand and NT\$4,362,834 thousand (US\$143,112 thousand), respectively.

The write-down of inventories to their net realizable value amounted to NT\$162,142 thousand and NT\$2,253,460 thousand (US\$73,919 thousand) and was recognized as cost of sales for the nine months ended September 30, 2010 and 2011, respectively.

11. PREPAYMENTS

Prepayments as of September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 1,831,195	\$ 3,082,554	\$101,115
Prepayments to suppliers	400	1,284,588	42,138
Services	63,514	332,341	10,902
Software and hardware maintenance	119,773	233,137	7,647
Molding equipment	28,865	122,216	4,009
Marketing	32,704	31,389	1,030
Others	<u>58,061</u>	<u>98,466</u>	<u>3,230</u>
	<u>\$ 2,134,512</u>	<u>\$ 5,184,691</u>	<u>\$170,071</u>

Prepayments for royalty were primarily for discount purpose and classified as current or noncurrent based on their maturities. As of September 30, 2010 and 2011, the noncurrent prepayments were NT\$1,262,528 thousand and NT\$3,099,196 thousand (US\$101,661 thousand) were classified as other assets, respectively (Note 28 has more information).

Prepayments to suppliers were primarily for discount purposes and classified as current or noncurrent on the basis of their maturities. As of September 30, 2011, noncurrent prepayments of NT\$2,007,160 thousand (US\$65,840 thousand) had been classified as other assets.

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

12. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets as of September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Corporate bonds	\$ <u> -</u>	\$ <u>205,441</u>	\$ <u>6,739</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 September 30, 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	\$ 16,401
BandRich Inc.	15,861	15,861	521
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>39</u>
	517,053	517,053	16,961
Less: Accumulated impairment loss	<u>(1,192)</u>	<u>(1,192)</u>	<u>(39)</u>
	<u>\$ 515,861</u>	<u>\$ 515,861</u>	<u>\$ 16,922</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 September 30, 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.	\$ 1,919,910	100.00	\$ 2,341,111	\$ 76,794	\$ 2,689,786	\$ 88,232	100.00
Communication Global Certification Inc.	395,286	100.00	380,000	12,465	464,454	15,235	100.00
High Tech Computer Asia Pacific Pte. Ltd.	4,328,248	100.00	8,626,520	282,971	13,112,454	430,121	100.00
HTC Investment Corporation	300,575	100.00	300,000	9,841	300,946	9,871	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	62	2	1.00
HTC I Investment Corporation	295,606	100.00	295,000	9,677	295,649	9,698	100.00
HTC Holding Cooperatief U.A.	13	1.00	13	1	13	1	1.00
Huada Digital Corporation	245,411	100.00	245,000	8,036	245,747	8,061	100.00
Prepayments for long-term investments	<u>2,299,815</u>		<u>349,002</u>	<u>11,448</u>	<u>349,002</u>	<u>11,448</u>	
	<u>\$ 9,784,926</u>		<u>\$ 12,536,708</u>	<u>\$ 411,235</u>	<u>\$ 17,458,113</u>	<u>\$ 572,669</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\$1,539,665 thousand (US\$50,505 thousand) in H.T.C. (B.V.I.) Corp. As of September 30, 2011, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to NT\$2,395,491 thousand (US\$78,578 thousand). Because the registration of this investment had not been completed as of September 30, 2011, an amount of NT\$54,380 thousand (US\$1,784 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 September 30, 2011, the Company's investment in Communication Global Certification Inc. amounted to NT\$380,000 thousand (US\$12,465 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\$2,064,571 thousand (US\$67,723 thousand). As of September 30, 2011, the Company's investment in High Tech Asia had amounted to NT\$8,626,520 thousand (US\$282,971 thousand).

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. In 2011, the Company increase this investment by NT\$5,000 (US\$164 thousand). As of September 30, 2011, the Company's investment in Huada Digital Corporation had amounted to NT\$250,000 thousand (US\$8,201 thousand). Because the registration of this investment had not been completed as of September 30, 2011, an amount of NT\$5,000 thousand (US\$164 thousand) was temporarily accounted for under "prepayments for long-term investments."

In September 2011, the Fair Trade Commission Executive Yuan, R.O.C. (Taiwan) approved the capital increase of Huada Digital Corporation by Chunghwa Telecom Co., Ltd. ("CHT"). After the capital increase, the Company and CHT will acquire 50% and 50% equity interest, respectively. The registration of this investment had not been completed as of September 30, 2011

In August 2011, the Company acquired 100% equity interest in HTC Investment One (BVI) Corporation for NT\$275,671 thousand (US\$9,043 thousand) and accounted for this investment by the equity method. Because the registration of this investment had not been completed as of September 30, 2011, the investment was temporarily accounted for under "prepayments for long-term investments."

On its equity-method investments, the Company had gains of NT\$790,476 thousand and NT\$2,119,825 thousand (US\$69,536 thousand) for the nine months ended September 30, 2010 and 2011, respectively.

The financial statements of equity-method investees for the nine months ended September 30, 2010 and 2011 had been reviewed by the Company's independent accountants.

Under orders VI-0960034217 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 nine months ended September 30, 2010 and 2011. All significant intercompany balances and transactions have been eliminated.

15. PROPERTIES

Properties as of September 30, 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	\$ 7,462,281	\$ -	\$ 7,462,281	\$ 244,781
Buildings and structures	2,504,057	3,645,745	900,473	2,745,272	90,052
Machinery and equipment	739,981	6,449,665	4,011,048	2,438,617	79,993
Molding equipment	-	172,632	172,632	-	-
Computer equipment	75,655	362,979	289,469	73,510	2,411
Transportation equipment	1,086	6,570	2,558	4,012	132
Furniture and fixtures	26,304	198,346	130,110	68,236	2,238
Leased assets	982	4,712	4,516	196	7
Leasehold improvements	31,591	206,579	77,526	129,053	4,233
Prepayments for construction-in-progress and equipment-in-transit	<u>636,389</u>	<u>1,740,308</u>	<u>-</u>	<u>1,740,308</u>	<u>57,086</u>
	<u>\$ 9,403,763</u>	<u>\$20,249,817</u>	<u>\$ 5,588,332</u>	<u>\$14,661,485</u>	<u>\$ 480,933</u>

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

In April 2011, the Company bought land adjacent to Taoyuan plant for NT\$1,770,000 thousand (US\$58,060 thousand) from an unrelated party to build up a complete HTC technology park and meet the future capacity expansion requirements.

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

There were no interests capitalized for the nine months ended September 30, 2010 and 2011, respectively.

16. ACCRUED EXPENSES

Accrued expenses as of September 30, 2010 and 2011 were as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 13,069,745	\$ 30,082,647	\$ 986,785
Salaries	2,019,417	6,376,083	209,151
Bonus to employees	5,641,902	6,218,734	203,990
Services	2,231,968	2,871,097	94,179
Research materials	648,280	1,701,307	55,807
Import, export and freight	830,606	1,246,064	40,874
Donation	442,800	480,800	15,771
Repair and maintenance	122,270	255,953	8,396
Insurance	110,292	180,522	5,922

(Continued)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Meals and welfare	\$ 149,174	\$ 159,858	\$ 5,244
Pension cost	62,698	106,513	3,494
Travel	38,012	101,105	3,317
Others	<u>77,727</u>	<u>136,800</u>	<u>4,487</u>
	<u>\$ 25,444,891</u>	<u>\$ 49,917,483</u>	<u>\$ 1,637,417</u> (Concluded)

Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2010 and 2011 should be appropriated at 18% and 10% (the original accrual at 8% for 2011 was adjusted to other employee compensation and accounted for under "Salaries") of net income before deducting employee bonus expenses. Accrued bonus as of September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Accrued bonus to employees for current year	\$ 5,298,729	\$ 6,088,456	\$ 199,716
Cash bonuses approved by the stockholders for prior years	<u>343,173</u>	<u>130,278</u>	<u>4,274</u>
	<u>\$ 5,641,902</u>	<u>\$ 6,218,734</u>	<u>\$ 203,990</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 September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 8,068,423	\$ 13,115,711	\$ 430,228
Deferred credits - profit from intercompany transactions	84,224	1,003,790	32,927
Other payable (Note 25)	700,619	497,675	16,325
Agency receipts	371,337	225,116	7,384
			(Continued)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Advance receipts	\$ 243,449	\$ 143,159	\$ 4,696
Other	<u>372,650</u>	<u>524,561</u>	<u>17,207</u>
	<u>\$ 9,840,702</u>	<u>\$ 15,510,012</u>	<u>\$ 508,767</u> (Concluded)

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 nine months ended September 30, 2010 and 2011 were NT\$154,270 thousand and NT\$246,688 thousand (US\$8,092 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 is 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\$438,943 thousand and NT\$470,445 (US\$15,432 thousand) as of September 30, 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, the movement of prepaid pension cost under the defined benefit plans for the nine months ended September 30, 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	\$ 5,214
Contributions	(2,377)	(3,093)	(101)
Payments	<u>18,329</u>	<u>22,717</u>	<u>745</u>
Balance, end of period	<u>\$ 153,605</u>	<u>\$ 178,569</u>	<u>\$ 5,858</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 September 30, 2010 increased to NT\$8,176,532 thousand, divided into 817,653 thousand common shares at NT\$10.00 par value.

In June 2011, the stockholders approved the transfer of retained earnings amounting to NT\$403,934 thousand (US\$13,250 thousand) and employee bonuses amounting to NT\$40,055 thousand (US\$1,314 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2011 increased to NT\$8,620,521 thousand (US\$282,774 thousand), divided into 862,052 thousand common shares at NT\$10.00 (US\$0.33) par value.

Global Depositary Receipts

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

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

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

Taking into account the effect of stock dividends, the GDRs increased to 9,015.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of September 30, 2011, there were 5,433.6 thousand units of GDRs redeemed, representing 21,734.2 thousand common shares, and the outstanding GDRs represented 14,326.3 thousand common shares or 1.68% 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 was 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 September 30, 2010 was NT\$10,777,623 thousand.

Also, in June 2011, the bonus to employees of NT\$8,491,704 thousand (US\$278,549 thousand) for 2010 was approved in the stockholders' meeting. Of the approved amount, NT\$4,245,851 thousand (US\$139,274 thousand), representing 4,006 thousand common shares which was determined by fair value, would be distributed by common stock in 2011. The difference between par value and fair value of NT\$4,205,796 thousand (US\$137,961 thousand) was accounted for as additional paid-in capital in 2011. As a result, the additional paid-in capital as of September 30, 2011 was NT\$14,983,419 thousand (US\$491,493 thousand).

In June 2011, the Company resolved to transfer treasury stocks to employees. In 2011, the number of shares for transfer to employees was 6,000 thousand; of that amount, 5,875 thousand shares were exercised. Based on the fair value at the grant date, NT\$1,750,767 thousand (US\$57,429 thousand) was accounted for as capital surplus - treasury stock transactions, and NT\$37,503 thousand (US\$1,230 thousand) for the unexercised 125 thousand shares was accounted for as capital surplus - expired stock options.

The fair values at the grant date for the fifth and sixth buyback were NT\$394.105 and NT\$210.121, respectively. It was estimated by Black-Scholes option valuation model. The assumptions were as follows:

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

As of September 30, 2010 and 2011, the capital surplus from long-term equity-method investments were both NT\$18,411 thousand (US\$604 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 September 30, 2011 was NT\$24,710 thousand (US\$811 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.

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

Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2010 and 2011 should be appropriated at 18% and 10% (the original accrual at 8% for 2011 was adjusted to other employee compensation) of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

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

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

On July 16, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand and 10,000 thousand company shares from the open market between July 18, 2011 and August 17, 2011, and between August 18, 2011 and September 17, 2011, respectively, with the repurchase price ranging from NT\$900 to NT\$1,100 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The Company bought back 20,000 thousand shares for NT\$16,086,098 thousand (US\$527,644 thousand) during the repurchase period. The related treasury stock information for the nine months ended September 30, 2010 and 2011 were as follows:

(In Thousands of Shares)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
<u>Nine months ended September 30, 2010</u>				
To maintain the Company's credibility and shareholders' interest	-	15,000	15,000	-
For transferring shares to the Company's employees	<u>-</u>	<u>4,786</u>	<u>-</u>	<u>4,786</u>
	<u>-</u>	<u>19,786</u>	<u>15,000</u>	<u>4,786</u>
<u>Nine months ended September 30, 2011</u>				
To maintain the Company's credibility and shareholders' interest	-	10,000	-	10,000
For transferring shares to the Company's employees	<u>9,786</u>	<u>10,000</u>	<u>5,875</u>	<u>13,911</u>
	<u>9,786</u>	<u>20,000</u>	<u>5,875</u>	<u>23,911</u>

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of the Company's issued and outstanding 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	\$2,754,290	\$7,648,084	\$10,402,374	\$4,749,671	\$12,532,836	\$17,282,507	\$155,801	\$411,108	\$566,909
Salary	2,362,304	7,210,413	9,572,717	4,012,393	11,902,360	15,914,753	131,617	390,427	522,044
Insurance	139,639	153,841	293,480	259,107	216,907	476,014	8,499	7,115	15,614
Pension cost	53,404	103,243	156,647	110,706	139,075	249,781	3,631	4,562	8,193
Other	198,943	180,587	379,530	367,465	274,494	641,959	12,054	9,004	21,058
Depreciation	211,532	238,364	449,896	362,962	304,083	667,045	11,906	9,975	21,881
Amortization	19,322	21,368	40,690	262,288	3,108	265,396	8,604	102	8,706

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 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 function	2010.01.01-2014.12.31
Sales of wireless or smartphone which has 3.5G function (expected)	2012.01.01-2016.12.31 (expected)

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 reduces a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010. Income tax payable as of September 30, 2010 and 2011 were computed as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Income before income tax	\$ 27,844,334	\$ 57,465,964	\$ 1,885,027
Unrealized royalties	4,766,717	10,626,755	348,584
Unrealized marketing expense	4,460,720	14,339,794	470,381
Unrealized warranty expense	2,780,860	4,058,661	133,134
Unrealized exchange gain, net	(1,094,738)	(495,541)	(16,255)
Gains on equity-method investment	(790,476)	(2,119,825)	(69,536)
Unrealized contingent losses of purchase orders	509,819	1,173,632	38,498
Realized valuation gain on financial instruments	429,401	229,667	7,534
(Realized) unrealized bad debt expenses	(186,294)	368,711	12,095
(Realized) unrealized loss on decline in value of inventory	(117,280)	926,136	30,380
Realized pension cost	(15,953)	(19,623)	(644)
(Realized) unrealized profit from intercompany transactions	(23,926)	658,335	21,595
Unrealized research materials	-	382,131	12,534

(Continued)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Unrealized sales allowance	\$ -	\$ 793,634	\$ 26,033
Other	<u>145,677</u>	<u>(91,929)</u>	<u>(3,016)</u>
Total income	38,708,861	88,296,502	2,896,344
Less: Tax-exempt income	<u>(35,028,046)</u>	<u>(73,521,012)</u>	<u>(2,411,671)</u>
Taxable income	3,680,815	14,775,490	484,673
Tax rate	<u>×17%</u>	<u>×17%</u>	<u>×17%</u>
Estimated income tax provision	625,739	2,511,833	82,394
Unappropriated earnings (additional 10% income tax)	-	865,772	28,399
Less: Investment research and development tax credits (Industrial Innovation Act)	<u>-</u>	<u>(865,772)</u>	<u>(28,399)</u>
Income tax payable determined pursuant to the Income Tax Law	<u>\$ 625,739</u>	<u>\$ 2,511,833</u>	<u>\$ 82,394</u>
Alternative minimum tax	\$ 3,844,496	\$ 8,829,453	\$ 289,628
Less: Prepaid and withheld income tax	(21,070)	(44,641)	(1,464)
Add: Prior years' income tax payable	<u>81,334</u>	<u>165,065</u>	<u>5,414</u>
Income tax payable	<u>\$ 3,904,760</u>	<u>\$ 8,949,877</u>	<u>\$ 293,578</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 September 30, 2010 and 2011, should be NT\$3,844,496 thousand and NT\$8,829,453 thousand (US\$289,628 thousand), respectively.

Deductible temporary differences and tax credit carryforwards that gave rise to deferred income tax assets as of September 30, 2010 and 2011 were as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	\$ 511,357	\$ 741,682	\$ 24,329
Unrealized royalties	2,247,813	4,566,970	149,808
Unrealized marketing expense	2,221,857	5,114,050	167,754
Unrealized reserve for warranty expense	1,371,632	2,229,671	73,139
Capitalize expense	92,965	66,346	2,176
Unrealized bad-debt expenses	93,533	63,783	2,092
Unrealized contingent loss of purchase orders	-	529,682	17,375
Unrealized valuation loss on financial instruments	69,916	-	-
Unrealized research materials	-	125,927	4,131
			(Continued)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Unrealized sales allowance	\$ -	\$ 176,797	\$ 5,799
Other	37,973	207,898	6,820
Tax credit carryforwards	<u>3,141,129</u>	<u>3,141,446</u>	<u>103,047</u>
Total deferred income tax assets	9,788,175	16,964,252	556,470
Less: Valuation allowance	<u>(6,901,735)</u>	<u>(11,039,287)</u>	<u>(362,116)</u>
Total deferred income tax assets, net	2,886,440	5,924,965	194,354
Deferred income tax liabilities			
Unrealized pension cost	(26,114)	(30,357)	(996)
Unrealized exchange gains, net	(181,538)	(32,017)	(1,050)
Unrealized valuation gain on financial instruments	-	(37,504)	(1,230)
Other	<u>-</u>	<u>(30,247)</u>	<u>(992)</u>
	2,678,788	5,794,840	190,086
Less: Current portion	<u>(971,529)</u>	<u>(1,748,115)</u>	<u>(57,343)</u>
Deferred income tax assets, noncurrent	<u>\$ 1,707,259</u>	<u>\$ 4,046,725</u>	<u>\$ 132,743</u> (Concluded)

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	<u>2010</u>	<u>2011</u>	
		NT\$	NT\$	US\$ (Note 3)
2009	2009-2012	\$ 831,154	\$ 831,154	\$ 27,264
2010	2010-2013	<u>2,309,975</u>	<u>2,310,292</u>	<u>75,783</u>
		<u>\$ 3,141,129</u>	<u>\$ 3,141,446</u>	<u>\$ 103,047</u>

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

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

The income tax expenses for the nine months ended September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 3,844,496	\$ 8,829,453	\$ 289,628
Increase in deferred income tax assets	(801,447)	(2,449,830)	(80,360)
Underestimation of prior years' income tax	<u>64,379</u>	<u>54,158</u>	<u>1,776</u>
Income tax	<u>\$ 3,107,428</u>	<u>\$ 6,433,781</u>	<u>\$ 211,044</u>

The integrated income tax information is as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account	\$ 3,094,056	\$ 3,943,715	\$ 129,364
Unappropriated earnings from 1998	38,080,198	73,033,196	2,395,670
Expected creditable ratio (including income tax payable)	18.17%	17.43%	17.43%

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

When calculating the expected creditable ratio for the nine months ended September 30, 2010 and 2011, the income tax payable as of September 30, 2010 and 2011 were included.

23. EARNINGS PER SHARE

Earnings per share (“EPS”) before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 857,740 thousand shares and 847,739 thousand shares for the nine months ended September 30, 2010 and 2011, respectively. EPS for the nine months ended September 30, 2010 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2011.

The Accounting Research and Development Foundation issued Interpretation 2007-052 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 nine months ended September 30, 2010 and 2011 was 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>Nine months ended September 30, 2010</u>					
Basic EPS	\$ 27,844,334	\$ 24,736,906	857,740	<u>\$ 32.46</u>	<u>\$ 28.84</u>
Bonus to employees	-	-	8,159		
Diluted EPS	<u>\$ 27,844,334</u>	<u>\$ 24,736,906</u>	<u>865,899</u>	<u>\$ 32.16</u>	<u>\$ 28.57</u>
<u>Nine months ended September 30, 2011</u>					
Basic EPS	\$ 57,465,964	\$ 51,032,183	847,739	<u>\$ 67.79</u>	<u>\$ 60.20</u>
Bonus to employees	-	-	9,868		
Diluted EPS	<u>\$ 57,465,964</u>	<u>\$ 51,032,183</u>	<u>857,607</u>	<u>\$ 67.01</u>	<u>\$ 59.51</u>

	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS	
	Before	After		Before	After
	Income	Income		Income	Income
	Tax	Tax		Tax	Tax
	US\$	US\$		US\$	US\$
	(Note 3)	(Note 3)		(Note 3)	(Note 3)
Nine months ended September 30, 2011					
Basic EPS	\$ 1,885,027	\$ 1,673,983	847,739	\$ 2.22	\$ 1.97
Bonus to employees	-	-	9,868		
Diluted EPS	\$ 1,885,027	\$ 1,673,983	857,607	\$ 2.20	\$ 1.95

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	September 30					
	2010		2011			
	Carrying	Fair	Carrying Amount		Fair Value	
	Amount	Value	NT\$	US\$	NT\$	US\$
	NT\$	NT\$	(Note 3)	(Note 3)	(Note 3)	
Assets						
Available-for-sale financial assets - current	\$ 401,400	\$ 401,400	\$ 734,698	\$ 24,100	\$ 734,698	\$ 24,100
Available-for-sale financial assets - noncurrent	436	436	406	13	406	13
Held-to-maturity financial assets - noncurrent	-	-	205,441	6,739	204,728	6,716
Financial assets carried at cost	515,861	515,861	515,861	16,922	515,861	16,922

b. Derivative financial instruments

	September 30					
	2010		2011			
	Carrying	Fair	Carrying Amount		Fair Value	
	Amount	Value	NT\$	US\$	NT\$	US\$
	NT\$	NT\$	(Note 3)	(Note 3)	(Note 3)	
Assets						
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ 220,609	\$ 7,237	\$ 220,609	\$ 7,237
Liabilities						
Financial liabilities at fair value through profit or loss - current	411,269	411,269	-	-	-	-

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		
	September 30			September 30		
	2010	2011	US\$	2010	2011	US\$
	NT\$	NT\$	(Note 3)	NT\$	NT\$	(Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ -	\$ -	\$ 220,609	\$ 7,237
Available-for-sale financial assets - current	401,400	734,698	24,100	-	-	-
Available-for-sale financial assets - noncurrent	436	406	13	-	-	-
Held-to-maturity financial assets - noncurrent	-	204,728	6,716	-	-	-
Financial assets carried at cost	-	-	-	515,861	515,861	16,922
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	-	-	411,269	-	-

There was no loss or gain recognized for the nine months ended September 30, 2010 and 2011 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized gains of NT\$123 thousand and NT\$2,618 thousand (US\$86 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the nine months ended September 30, 2010 and 2011, respectively.

As of September 30, 2010 and 2011, financial assets exposed to fair value interest rate risk and financial assets exposed to cash flow interest rate risk amounted were NT\$0 thousand and NT\$205,441 thousand (US\$6,739 thousand) and NT\$51,985,402 thousand and NT\$56,952,668 thousand (US\$1,868,189 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 were 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 September 30, 2011 and the realized settlement loss on derivative financial instruments was NT\$1,074 thousand (US\$35 thousand).

25. RELATED-PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Way-Lien Technology Co., Ltd	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.
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.

(Continued)

Related Party	Relationship with the Company
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.
HTC Communication Canada, Ltd.	Subsidiary of HTC. Netherlands B.V.
HTC Luxembourg S.a.r.l.	Subsidiary of HTC. Netherlands B.V.
HTC America Content Services, Inc.	Subsidiary of HTC America Holding Inc.
HTC Norway AS	Subsidiary of HTC. Netherlands B.V.
HTC Russia LLC	Subsidiary of HTC. Netherlands B.V.
HTC Communication Sweden AB	Subsidiary of HTC. Netherlands B.V.
Dashwire, Inc.	Subsidiary of HTC America Holding Inc.
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

Related Party	Nine Months Ended September 30				
	2010		2011		
	Amount	% of Total Net Purchases	Amount	% of Total Net Purchases	
	NT\$		NT\$	US\$	
				(Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 179,686	-	\$ 450,235	\$ 14,769	-
Chander Electronics Corp.	173,539	-	172,540	5,660	-
High Tech Computer Corp. (Suzhou)	<u>39,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 393,101</u>	<u>-</u>	<u>\$ 622,775</u>	<u>\$ 20,429</u>	<u>-</u>

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

Sales and Services Provided

Related Party	Nine Months Ended September 30				% of Total Revenues
	2010		2011		
	Amount	% of Total Revenues	Amount		
	NT\$		NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 45,673,395	27	\$ 171,224,834	\$ 5,616,599	48
HTC Communication Co., Ltd.	559,610	-	12,531,135	411,052	4
HTC Employees' Welfare Committee	34,112	-	52,510	1,722	-
Exedea Inc.	1,120,555	1	-	-	-
Others	182,664	-	20,309	667	-
	<u>\$ 47,570,336</u>	<u>28</u>	<u>\$ 183,828,788</u>	<u>\$ 6,030,040</u>	<u>52</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., HTC Communication Co., Ltd. and Employees' Welfare Committee. The collection terms for products sold to related parties were similar to those for sales to third parties, except those for HTC EUROPE CO., LTD.

Accounts Receivable

Related Party	September 30				% of Total Notes and Accounts Receivable
	2010		2011		
	Amount	% of Total Notes and Accounts Receivable	Amount		
	NT\$		NT\$	US\$ (Note 3)	
Accounts receivable					
HTC America Inc.	\$ 22,294,525	48	\$ 40,498,910	\$ 1,328,465	50
HTC Communication Co., Ltd.	548,437	1	4,112,797	134,910	5
HTC EUROPE CO., LTD.	73,477	-	43,538	1,428	-
Others	18,150	-	29,914	981	-
	<u>\$ 22,934,589</u>	<u>49</u>	<u>\$ 44,685,159</u>	<u>\$ 1,465,784</u>	<u>55</u>

Accounts Payable

Related Party	September 30				% of Total Notes and Accounts Payable
	2010		2011		
	Amount NT\$	% of Total Notes and Accounts Payable	Amount NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 1,523,131	3	\$ 3,487,341	\$ 114,393	4
Chander Electronics Corp.	104,831	-	25,262	829	-
High Tech Computer Corp. (Suzhou)	39,222	-	-	-	-
Others	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,667,197</u>	<u>3</u>	<u>\$ 3,512,603</u>	<u>\$ 115,222</u>	<u>4</u>

Other Receivable

Related Party	September 30				% of Total Other Receivable
	2010		2011		
	Amount NT\$	% of Total Other Receivable	Amount NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 364	-	\$ 29,558	\$ 970	2
Exedea Inc.	7,949	1	-	-	-
Others	<u>1,274</u>	<u>-</u>	<u>2,280</u>	<u>74</u>	<u>-</u>
	<u>\$ 9,587</u>	<u>1</u>	<u>\$ 31,838</u>	<u>\$ 1,044</u>	<u>2</u>

Prepaid Expenses

Related Party	September 30				% of Total Prepayment
	2010		2011		
	Amount NT\$	% of Total Prepayment	Amount NT\$	US\$ (Note 3)	
HTC America Innovation Inc.	\$ -	-	\$ 243,884	\$ 8,000	5
HTC India Private Limited	-	-	57,802	1,896	1
HTC NIPPON Corporation	48,776	2	25,834	847	-
HTC South Eastern Europe Limited Liability Company	10,645	1	3,717	122	-
Others	<u>4,181</u>	<u>-</u>	<u>87</u>	<u>3</u>	<u>-</u>
	<u>\$ 63,602</u>	<u>3</u>	<u>\$ 331,324</u>	<u>\$ 10,868</u>	<u>6</u>

Accrued Expenses

Related Party	September 30				
	2010		2011		
	Amount	% of Total Accrued Expenses	Amount		% of Total Accrued Expenses
NT\$		NT\$	US\$ (Note 3)		
HTC EUROPE CO., LTD.	\$ 602,108	3	\$ 768,689	\$ 25,215	2
High Tech Computer Asia Pacific Pte. Ltd.	79,528	-	464,053	15,222	1
HTC HK, Limited	-	-	398,021	13,056	1
HTC India Private Limited	61,333	-	284,905	9,346	1
HTC America Innovation Inc.	-	-	249,539	8,185	1
HTC Cultural and Educational Foundation	217,800	2	217,800	7,144	1
HTC (Australia and New Zealand) Pty. Ltd.	77,925	-	173,921	5,705	-
HTC (Thailand.) Ltd.	21,045	-	115,692	3,795	-
HTC Belgium BVBA/SPRL	70,278	-	88,007	2,887	-
Saffron Digital Ltd.	-	-	75,829	2,487	-
HTC Brasil	37,037	-	64,134	2,104	-
Communication Global Certification Inc.	50,701	-	54,796	1,797	-
HTC Innovation Limited	93,316	1	49,005	1,607	-
HTC NIPPON Corporation	-	-	44,539	1,461	-
HTC Nordic ApS.	-	-	41,212	1,352	-
HTC Germany GmbH.	-	-	32,019	1,050	-
Abaxia SAS	25,210	-	27,297	896	-
High Tech Computer (H.K.) Limited	67,552	-	-	-	-
Others	56,647	-	112,142	3,679	-
	<u>\$ 1,460,480</u>	<u>6</u>	<u>\$ 3,261,600</u>	<u>\$ 106,988</u>	<u>7</u>

Other Payables to Related Parties

Related Party	September 30				
	2010		2011		
	Amount	% of Total Other Payables	Amount		% of Total Other Payables
NT\$		NT\$	US\$ (Note 3)		
HTC America Inc.	\$ 380,366	54	\$ 91,488	\$ 3,002	18
High Tech Computer Asia Pacific Pte. Ltd.	104,422	15	53,209	1,745	11
HTC Corporation (Shanghai WGQ)	20,377	3	33,850	1,110	7
HTC EUROPE CO., LTD.	44,781	6	32,812	1,076	7
HTC Innovation Limited	-	-	31,931	1,047	6
One & Company Design, Inc.	-	-	13,824	453	3
HTC NIPPON Corporation	6,441	1	-	-	-
Others	18,023	3	11,920	392	2
	<u>\$ 574,410</u>	<u>82</u>	<u>\$ 269,034</u>	<u>\$ 8,825</u>	<u>54</u>

Outsourcing Expenses

Related Party	Nine Months Ended September 30				% of Total Outsourcing Expenses
	2010		2011		
	Amount NT\$	% of Total Outsourcing Expenses	Amount NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 5,303,312	94	\$ 18,600,137	\$ 610,131	99

Warranty Expenses

Related Party	Nine Months Ended September 30				% of Total Warranty Expenses
	2010		2011		
	Amount NT\$	% of Warranty Expenses	Amount NT\$	US\$ (Note 3)	
HTC EUROPE CO., LTD.	\$ 164,835	3	\$ 244,346	\$ 8,015	2
HTC Corporation (Shanghai WGQ)	75,514	1	139,431	4,574	2
High Tech Computer Asia Pacific Pte. Ltd.	31,476	1	51,807	1,699	-
HTC BRASIL	5,706	1	21,885	718	-
High Tech Computer (H.K.) Limited	35,712	1	10,210	335	-
HTC (Australia and New Zealand) PTY. Ltd.	4,062	1	7,789	256	-
HTC HK, Limited	-	1	4,444	146	-
HTC America Inc.	778,292	12	-	-	-
Others	13,711	-	10,036	329	-
	\$ 1,109,308	21	\$ 489,948	\$ 16,072	4

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

Commission Expenses

Related Party	Nine Months Ended September 30				% of Total Commission Expenses
	2010		2011		
	Amount NT\$	% of Commission Expenses	Amount NT\$	US\$ (Note 3)	
HTC EUROPE CO., LTD.	\$ 2,320,249	81	\$ 4,347,025	\$ 142,593	78
HTC Belgium BVBA/SPRL	452,285	16	382,876	12,559	7
HTC Nordic ApS.	-	-	209,508	6,872	4
HTC Germany GmbH.	-	-	207,416	6,804	4
HTC FRANCE CORPORATION	37,479	1	140,408	4,606	3
HTC Iberia S.L.	-	-	86,524	2,838	2

(Continued)

Related Party	Nine Months Ended September 30				
	2010		2011		
	Amount	% of Commission Expenses	Amount		% of Commission Expenses
			NT\$	US\$ (Note 3)	
HTC Netherlands B.V.	\$ -	-	\$ 73,303	\$ 2,405	1
Others	<u>70,677</u>	<u>2</u>	<u>73,917</u>	<u>2,425</u>	<u>1</u>
	<u>\$ 2,880,690</u>	<u>100</u>	<u>\$ 5,520,977</u>	<u>\$ 181,102</u>	<u>100</u>

(Concluded)

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

Service and Marketing Fees

Related Party	Nine Months Ended September 30				
	2010		2011		
	Amount	% of Total Service Fees	Amount		% of Total Service Fees
			NT\$	US\$ (Note 3)	
HTC America Innovation Inc.	\$ -	-	\$ 1,370,686	\$ 44,962	9
High Tech Computer Asia Pacific Pte. Ltd.	205,235	3	808,049	26,506	4
HTC (Australia and New Zealand) Pty. Ltd.	167,705	2	514,361	16,872	3
HTC HK, Limited	-	-	498,428	16,350	3
HTC India Private Limited	104,695	1	365,366	11,985	2
HTC Innovation Limited	147,035	2	289,718	9,504	2
One & Company Design, Inc.	125,840	1	232,046	7,612	1
Saffron Digital Ltd.	-	-	218,682	7,173	1
ABAXIA SAS	25,210	-	200,845	6,588	1
HTC BRASIL Communication Global Certification Inc.	124,364	1	171,502	5,626	1
HTC Malaysia Sdn. Bhd.	51,786	1	165,840	5,440	1
HTC (Thailand) Ltd.	49,097	1	161,220	5,288	1
HTC NIPPON Corporation High Tech Computer (H.K.) Limited	74,044	1	125,683	4,123	-
	135,349	1	70,068	2,298	-
HTC America Inc.	2,276,534	24	-	-	-
Others	<u>16,361</u>	<u>-</u>	<u>22,800</u>	<u>748</u>	<u>-</u>
	<u>\$ 3,641,140</u>	<u>39</u>	<u>\$ 5,412,357</u>	<u>\$ 177,539</u>	<u>30</u>

Other Revenues

Related Party	Nine Months Ended September 30				% to Total Other Revenues
	2010		2011		
	Amount NT\$	% to Total Other Revenues	Amount NT\$	US\$ (Note 3)	
BandRich Inc.	\$ 200	-	\$ -	\$ -	-

Leasing - Lessee

Operating expense - rental expense

Related Party	Nine Months Ended September 30				% of Rental Expense
	2010		2011		
	Amount NT\$	% of Rental Expense	Amount NT\$	US\$ (Note 3)	
VIA Technologies Inc.	\$ 9,343	20	\$ 3,906	\$ 128	3

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.

Property Transaction

The company bought accessory equipment of buildings from Chander Electronics Corp. for NT\$6,555 thousand (US\$215 thousand) for the nine months ended September 30, 2011.

Endorsement/Guarantee Provided

Note 27 have more information.

Patent litigation

Note 29 have more information.

26. PLEDGED ASSETS

As of September 30, 2010 and 2011, the Company had provided time deposits of NT\$63,900 thousand (US\$2,096 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 September 30, 2011, unused letters of credit amounted to USD 487 thousand and EUR 60 thousand.

The Company provided US\$15,000 thousand guarantee for HTC Electronics (Shanghai) Co., Ltd.'s bank loans. The Company terminated the guarantee in April 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. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 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.

(Continued)

Contractor	Contract Term	Description
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement. (Concluded)

29. OTHER EVENTS

Lawsuit

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

In December 2009, the District Court of Mannheim ruled that it will stay the proceedings on patent #107 (EP 122782) because of the Court’s doubts about its validity. The case was therefore stayed pending the decision of the European Patent Office (“EPO”) opposition division on validity. The EPO subsequently revoked the patent #107 (EP 122782) for all designated states in June 2010.

Also, in February 2010, the District Court of Mannheim further ruled that the Company had not infringed IPCom’s patent #173 (EP 1018849).

In October 2010, IPCom 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 IPCom is appealing EPO’s decision. In December 2010, the #100 (EP 186189B1) was upheld in the Federal Patents Court; however, the chances of IPCom proving infringement are very low because of the revised very restricted claim. The risk of this newly asserted patent is very low.

In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent #100a (EP 1841268B1) with the High Court in London. The Company is discussing this new lawsuit with outside counsels.

As of October 18, 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 Exedea, Inc. ("the Company") concurrently with the U.S. International Trade Commission ("ITC") and U.S. District Court in Delaware ("Delaware court"), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing to and selling devices in the United States and damage compensation, respectively (ITC No. 337-TA-710). 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 (ITC No. 337-TA-721).

On July 15, 2011, the Company received the notice of ITC judge's initial determination in the Apple vs. HTC case (ITC No. 337-TA-710). Apple originally asserted 10 of its patents against the Company in March 2010, and the judge ruled that the Company infringed on 2 patents. HTC has filed Appeal with the ITC Committee. As for the investigation filed by HTC against Apple (ITC No. 337-TA-721), on September 17, 2011, the ITC judge issued his initial determination and ruled that Apple does not infringe the 4 asserted patents owned by the Company. As of October 18, 2011, the date of the accompanying independent accountants' review report, the Company does not yet have access to the judge's full opinion and analysis to determine the details of his findings. The Company will file Apple with ITC Committee and defend itself using all means possible.

On July 8, 2011, Apple filed another ITC investigation and a companion district court case in Delaware against the Company alleging patent infringement (ITC No. 337-TA-797). On August 16, 2011, the Company filed another ITC investigation and a companion district court case in Delaware against Apple alleging patent infringement (ITC No. 337-TA-808) against Apple.

As of October 18, 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.

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

In May 2010, Flashpoint filed an administration investigation against the Company with ITC, alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. On July 29, 2011, the ITC Judge issued his Initial Determination and ruled that the Company does not infringe patents owned by Flashpoint. Flashpoint has filed an appeal with ITC Committee and the final determination is scheduled to be issued by the committee on November 29, 2011.

- d. The Company had shared lawsuit-related costs based on common benefits and agreements between its vendors and customers. For the nine months ended September 30, 2011, the lawsuit-related costs incurred by VIA Technologies Inc. and its subsidiaries were shared by the Company.
- e. 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 Headquarters

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

Acquisition of Patents Owned by S3 Graphics Co., Ltd.

S3 Graphics Co, Ltd. owns patents on key graphics technologies which can strengthen the Company's patent portfolio and counteract the patent rights of competitors and potential licensors around the globe. It is resolved by the meeting of the Board of Directors on July 6, 2011 to obtain the full and complete right and ownership of all patents owned by S3 Graphics Co, Ltd. through the purchase of 100% stock share of S3 Graphics Co., Ltd. by increasing the capital of HTC Investment One (BVI) Corporation by an amount of US\$300,000 thousand.

Acquisition of 51% equity interest in Beats Electronics, LLC

To enhance brand value, in July 29, 2011, the Company's board of directors resolved to acquire 51% equity interest in Beats Electronics, LLC by executing capital injection in an amount of US\$309,000 thousand into its subsidiary HTC America Holding Inc.

Other

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

	September 30			
	2010		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 1,585,056	31.26	\$ 3,381,450	30.49
EUR	566,923	42.58	578,747	41.24
GBP	31,979	49.56	72,651	47.48
Investments accounted for by the equity method				
USD	61,419	31.26	99,518	30.49
SGD	278,959	23.76	557,609	23.52
<u>Financial liabilities</u>				
Monetary items				
USD	2,298,136	31.26	3,511,368	30.49
EUR	339,535	42.58	604,038	41.24
GBP	72,602	49.56	68,196	47.48

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 nine months ended September 30, 2010 and 2011 were as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Taiwan	\$ 4,541,108	\$ 14,234,249	\$ 466,918
Country X	92,146,093	174,597,081	5,727,217
Country Y	12,434,191	23,726,189	778,278
Country Z	10,541,998	16,341,354	536,037
Others	52,516,469	127,354,510	4,177,544
	\$ 172,179,859	\$ 356,253,383	\$ 11,685,994

Information about Major Customers

Revenues from transactions with a single external customer amount to 10 percent or more for the nine months ended September 30, 2010 and 2011 were as follows:

Customer	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
A	\$ 45,673,395	\$ 171,224,834	\$ 5,616,599
B	20,359,056	11,054,664	362,621
	\$ 66,032,451	\$ 182,279,498	\$ 5,979,220