

HTC Corporation

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

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

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

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

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

We have also reviewed the consolidated financial statements of HTC Corporation and subsidiaries as of and for the three months ended March 31, 2011 and 2012 and have issued unqualified review reports, respectively.

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

April 24, 2012

Notice to Readers

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

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

HTC CORPORATION

BALANCE SHEETS MARCH 31, 2011 AND 2012 (In Thousands, Except Par Value) (Reviewed, Not Audited)

ASSETS	2011	2012		LIABILITIES AND STOCKHOLDERS' EQUITY	2011	2012	
	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents (Notes 2 and 5)	\$ 86,722,010	\$ 71,251,331	\$ 2,414,113	Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	\$ 143,651	\$ 210,837	\$ 7,144
Available-for-sale financial assets - current (Notes 2 and 7)	442,557	737,392	24,984	Notes and accounts payable	60,028,696	64,051,843	2,170,182
Accounts receivable, net (Notes 2 and 8)	29,177,979	31,157,902	1,055,681	Accounts payable to related parties (Note 25)	3,160,196	3,261,019	110,489
Accounts receivable from related parties, net (Notes 2 and 25)	32,657,551	19,859,469	672,872	Income tax payable (Notes 2 and 22)	9,055,178	9,745,197	330,183
Other current financial assets (Notes 9 and 25)	1,491,832	842,689	28,552	Accrued expenses (Notes 16 and 25)	39,824,530	31,908,236	1,081,104
Inventories (Notes 2 and 10)	27,864,774	26,187,009	887,259	Payable for purchase of equipment	104,668	125,740	4,260
Prepayments (Notes 11 and 25)	2,733,961	5,106,471	173,016	Other current liabilities (Notes 2, 17 and 25)	15,124,422	17,306,046	586,357
Deferred income tax assets (Notes 2 and 22)	1,088,510	1,364,477	46,231				
Other current assets	709,763	325,294	11,021	Total current liabilities	127,441,341	126,608,918	4,289,719
Total current assets	182,888,937	156,832,034	5,313,729				
INVESTMENTS				OTHER LIABILITIES			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	530	324	11	Guarantee deposits received	628	598	20
Held-to-maturity financial assets - noncurrent (Notes 2 and 12)	207,120	203,764	6,904	Total liabilities	127,441,969	126,609,516	4,289,739
Financial assets carried at cost - noncurrent (Notes 2 and 13)	515,861	515,861	17,478				
Investments accounted for by the equity method (Notes 2 and 14)	11,098,312	39,667,970	1,344,016	STOCKHOLDERS' EQUITY (Note 19)			
Prepayments for long-term investments (Notes 2 and 14)	2,879,394	432,301	14,647	Capital stock - NT\$10.00 par value			
Total investments	14,701,217	40,820,220	1,383,056	Authorized: 1,000,000 thousand shares			
				Issued and outstanding: 817,653 thousand shares in 2011 and 852,052 thousand shares in 2012			
PROPERTIES (Notes 2, 15 and 25)				Common stock	8,176,532	8,520,521	288,689
Cost				Capital surplus			
Land	5,690,718	7,462,489	252,841	Additional paid-in capital - issuance of shares in excess of par	10,777,623	14,809,608	501,774
Buildings and structures	3,576,775	3,727,146	126,282	Treasury stock transactions	-	1,730,458	58,631
Machinery and equipment	5,766,995	7,259,857	245,976	Long-term equity investments	18,411	18,037	611
Molding equipment	172,632	-	-	Merger	24,710	24,423	828
Computer equipment	350,638	409,959	13,890	Expired stock options	-	37,068	1,256
Transportation equipment	6,570	6,570	223	Retained earnings			
Furniture and fixtures	147,563	210,584	7,135	Legal reserve	10,273,674	10,273,674	348,089
Leased assets	4,712	4,712	160	Special reserve	-	580,856	19,681
Leasehold improvements	141,855	216,680	7,341	Accumulated earnings	67,709,756	80,229,507	2,718,308
Total cost	15,858,458	19,297,997	653,848	Other equity			
Less: Accumulated depreciation	(5,144,174)	(5,958,302)	(201,877)	Cumulative translation adjustments (Note 2)	(297,872)	(664,130)	(22,502)
Prepayments for construction-in-progress and equipment-in-transit	524,895	3,097,644	104,953	Net loss not recognized as pension cost	(121)	(293)	(10)
Properties, net	11,239,179	16,437,339	556,924	Unrealized (loss) gain on financial instruments (Notes 2 and 24)	(284)	117,091	3,967
				Treasury stock (Notes 2 and 20)	(6,852,493)	(14,065,490)	(476,562)
INTANGIBLE ASSETS (Note 2)				Total stockholders' equity	89,829,936	101,611,330	3,442,760
Patents	198,675	1,997,046	67,663				
OTHER ASSETS							
Refundable deposits	74,777	81,484	2,761				
Deferred charges (Note 2)	22,419	111,601	3,782				
Deferred income tax assets (Notes 2 and 22)	3,071,158	3,425,992	116,078				
Restricted assets (Note 26)	63,900	34,100	1,155				
Others (Notes 2, 11 and 18)	5,011,643	8,481,030	287,351				
Total other assets	8,243,897	12,134,207	411,127				
TOTAL	\$ 217,271,905	\$ 228,220,846	\$ 7,732,499	TOTAL	\$ 217,271,905	\$ 228,220,846	\$ 7,732,499

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

HTC CORPORATION

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$ 101,018,948	\$ 64,957,334	\$ 2,200,862
COST OF REVENUES (Notes 10, 21 and 25)	<u>73,598,941</u>	<u>51,090,051</u>	<u>1,731,015</u>
GROSS PROFIT	27,420,007	13,867,283	469,847
UNREALIZED INTERCOMPANY GAINS	(382,758)	(1,057,903)	(35,844)
REALIZED INTERCOMPANY GAINS	<u>345,455</u>	<u>1,151,531</u>	<u>39,016</u>
REALIZED GROSS PROFIT	<u>27,382,704</u>	<u>13,960,911</u>	<u>473,019</u>
OPERATING EXPENSES (Notes 21 and 25)			
Selling and marketing	6,957,741	4,948,997	167,681
General and administrative	1,140,377	1,424,197	48,254
Research and development	<u>4,000,144</u>	<u>3,274,961</u>	<u>110,961</u>
Total operating expenses	<u>12,098,262</u>	<u>9,648,155</u>	<u>326,896</u>
OPERATING INCOME	<u>15,284,442</u>	<u>4,312,756</u>	<u>146,123</u>
NONOPERATING INCOME AND GAINS			
Interest income	116,937	149,292	5,059
Gains on equity-method investments (Notes 2 and 14)	838,666	137,243	4,650
Exchange gain (Note 2)	534,019	467,134	15,827
Other	<u>38,736</u>	<u>71,341</u>	<u>2,417</u>
Total nonoperating income and gains	<u>1,528,358</u>	<u>825,010</u>	<u>27,953</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	-	320	11
Valuation losses on financial instruments, net (Notes 2 and 6)	143,651	210,837	7,144
Other	<u>1,764</u>	<u>28,792</u>	<u>975</u>
Total nonoperating expenses and losses	<u>145,415</u>	<u>239,949</u>	<u>8,130</u>
INCOME BEFORE INCOME TAX	16,667,385	4,897,817	165,946
INCOME TAX (Notes 2 and 22)	<u>(1,834,521)</u>	<u>(430,625)</u>	<u>(14,590)</u>
NET INCOME	<u>\$ 14,832,864</u>	<u>\$ 4,467,192</u>	<u>\$ 151,356</u>

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HTC CORPORATION

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

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

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

(Concluded)

HTC CORPORATION

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 14,832,864	\$ 4,467,192	\$ 151,356
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	209,910	280,873	9,516
Amortization	15,145	132,894	4,503
Amortization of premium on financial assets	826	833	28
Prepaid pension costs	(8,952)	(5,408)	(183)
Gains on equity-method investments	(838,666)	(137,243)	(4,650)
Transfer of properties to expenses	59	6,324	214
Deferred income tax assets	(814,658)	323,353	10,956
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	593,927	467,705	15,846
Notes receivable	-	755,450	25,596
Accounts receivable	6,001,059	126,424	4,283
Accounts receivable from related parties	(4,471,160)	13,117,800	444,452
Other current financial assets	(774,196)	541,238	18,338
Inventories	(5,944,282)	(797,689)	(27,027)
Prepayments	(386,344)	1,934,616	65,548
Other current assets	(252,709)	232,985	7,894
Other assets - other	(2,359,590)	(1,522,700)	(51,592)
Notes and accounts payable	3,549,919	(7,598,694)	(257,456)
Accounts payable to related parties	1,813,215	(378,212)	(12,814)
Income tax payable	2,638,511	92,107	3,121
Accrued expenses	8,160,901	(10,455,995)	(354,266)
Other current liabilities	<u>2,012,263</u>	<u>(516,955)</u>	<u>(17,515)</u>
Net cash provided by operating activities	<u>23,978,042</u>	<u>1,066,898</u>	<u>36,148</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in investments accounted for by the equity method	(2,871,519)	(3,489,498)	(118,230)
Purchase of properties	(671,009)	(1,525,223)	(51,677)
Decrease (increase) in refundable deposits	4,420	(2,590)	(88)
Decrease in restricted assets	<u>-</u>	<u>29,800</u>	<u>1,010</u>
Net cash used in investing activities	<u>(3,538,108)</u>	<u>(4,987,511)</u>	<u>(168,985)</u>

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HTC CORPORATION

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in guarantee deposits received	\$ -	\$ (30)	\$ (1)
Purchase of treasury stock	<u>-</u>	<u>(3,700,346)</u>	<u>(125,374)</u>
Net cash used in financing activities	<u>-</u>	<u>(3,700,376)</u>	<u>(125,375)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,439,934	(7,620,989)	(258,212)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>66,282,076</u>	<u>78,872,320</u>	<u>2,672,325</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 86,722,010</u>	<u>\$ 71,251,331</u>	<u>\$ 2,414,113</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest (net of amounts capitalized)	<u>\$ -</u>	<u>\$ 320</u>	<u>\$ 11</u>
Income tax	<u>\$ 10,668</u>	<u>\$ 15,165</u>	<u>\$ 514</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of assets leased to others to properties	<u>\$ 50,828</u>	<u>\$ -</u>	<u>\$ -</u>
INCREASE IN INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD			
Increase in investments accounted for by the equity method	\$ 2,872,988	\$ 3,489,498	\$ 118,230
Increase in payable for purchase of investments	<u>(1,469)</u>	<u>-</u>	<u>-</u>
Cash paid	<u>\$ 2,871,519</u>	<u>\$ 3,489,498</u>	<u>\$ 118,230</u>
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 457,090	\$ 1,302,191	\$ 44,120
Decrease in payable for purchase of equipment	<u>213,919</u>	<u>223,032</u>	<u>7,557</u>
Cash paid for purchase of properties	<u>\$ 671,009</u>	<u>\$ 1,525,223</u>	<u>\$ 51,677</u>

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

(Concluded)

HTC CORPORATION

NOTES TO FINANCIAL STATEMENTS THREE MONTHS ENDED MARCH 31, 2011 AND 2012 (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 10,948 and 13,866 employees as of March 31, 2011 and 2012, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, 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 are recognized in profit or loss.

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

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

Accounting Estimates

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

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

Current/Noncurrent Assets and Liabilities

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

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

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

Available-for-sale Financial Assets

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

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

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

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

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

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

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

Inventories

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

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

Investments Accounted for by the Equity Method

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

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

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

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

Properties

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

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

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

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

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

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

Intangible Assets

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

Deferred Charges

Deferred charges are computer software costs and deferred license fees. Computer software are amortized on a straight-line basis over 3 years, and deferred license fees, over 5 years.

Asset Impairment

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

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment. A reversal of an impairment loss on goodwill is disallowed.

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

Marketing Expenses

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

Warranty Provisions

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

Provisions for Contingent Loss on Purchase Orders

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

Product-related Costs

The cost of products consists of costs of goods sold, warranty expenses, contingent loss on purchase orders, and inventory write-downs and reversal of these write-downs.

Pension Plan

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

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

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

Income Tax

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

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

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

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

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

Stock-based Compensation

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

Treasury Stock

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

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

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

Reclassifications

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

3. TRANSLATION INTO U.S. DOLLARS

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

4. ACCOUNTING CHANGES

Financial Instruments

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

Operating Segments

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

5. CASH AND CASH EQUIVALENTS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 1,000	\$ 1,000	\$ 34
Cash in banks	13,394,462	33,485,578	1,134,547
Time deposits	<u>73,326,548</u>	<u>37,764,753</u>	<u>1,279,532</u>
	<u>\$ 86,722,010</u>	<u>\$ 71,251,331</u>	<u>\$ 2,414,113</u>

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

6. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial liabilities			
Exchange contracts	<u>\$ 143,651</u>	<u>\$ 210,837</u>	<u>\$ 7,144</u>

The Company had derivative transactions during the three months ended March 31, 2011 and 2012 to manage exposures related to exchange rate fluctuations. However, these transactions did not meet the criteria for hedge accounting under Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement." Thus, the Company had no hedge accounting for the three months ended March 31, 2011 and 2012. Outstanding forward exchange contracts as of March 31, 2011 and 2012 were as follows:

Forward Exchange Contracts

	<u>2011</u>			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2011.04.13-2011.06.01	EUR 234,000
Forward exchange contracts	Sell	EUR/TWD	2011.04.29	EUR 10,000
Forward exchange contracts	Sell	GBP/USD	2011.05.25-2011.06.01	GBP 23,000
Forward exchange contracts	Sell	USD/TWD	2011.04.06	USD 43,000
Forward exchange contracts	Buy	USD/JPY	2011.04.13-2011.06.29	USD 11,252
	<u>2012</u>			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2012.04.11-2012.05.30	EUR 307,000
Forward exchange contracts	Sell	GBP/USD	2012.04.11-2012.04.25	GBP 14,300
Forward exchange contracts	Sell	USD/TWD	2012.04.03-2012.04.20	USD 20,000
Forward exchange contracts	Buy	USD/RMB	2012.04.11-2012.05.16	USD 94,000
Forward exchange contracts	Buy	USD/JPY	2012.06.27	USD 1,816

Net loss on derivative financial instruments for the three months ended March 31, 2011 was NT\$424,389 thousand, including realized settlement loss of NT\$280,738 thousand and valuation loss of NT\$143,651 thousand.

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

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ 442,557	\$ 737,392	\$ 24,984
Domestic quoted stocks	530	324	11
Less: Current portion	<u>(442,557)</u>	<u>(737,392)</u>	<u>(24,984)</u>
	<u>\$ 530</u>	<u>\$ 324</u>	<u>\$ 11</u>

8. ACCOUNTS RECEIVABLE

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Accounts receivable	\$ 30,186,470	\$ 33,216,988	\$ 1,125,446
Less: Allowance for doubtful accounts	<u>(1,008,491)</u>	<u>(2,059,086)</u>	<u>(69,765)</u>
	<u>\$ 29,177,979</u>	<u>\$ 31,157,902</u>	<u>\$ 1,055,681</u>

9. OTHER CURRENT FINANCIAL ASSETS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 1,443,503	\$ 753,404	\$ 25,527
Agency payments	26,078	71,131	2,410
Interest receivable	<u>22,251</u>	<u>18,154</u>	<u>615</u>
	<u>\$ 1,491,832</u>	<u>\$ 842,689</u>	<u>\$ 28,552</u>

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

10. INVENTORIES

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 670,314	\$ 793,945	\$ 26,900
Work-in-process	8,695,915	9,230,423	312,742
Raw materials	17,167,898	15,978,146	541,366
Goods in transit	<u>1,330,647</u>	<u>184,495</u>	<u>6,251</u>
	<u>\$ 27,864,774</u>	<u>\$ 26,187,009</u>	<u>\$ 887,259</u>

As of March 31, 2011 and 2012, the allowance for inventory devaluation were NT\$3,780,010 thousand and NT\$3,943,839 thousand (US\$133,624 thousand), respectively.

The write-down of inventories to their net realizable value, which amounted to NT\$343,313 thousand and NT\$4,525 thousand (US\$153 thousand) was recognized as cost of sales for the three months ended March 31, 2011 and 2012, respectively.

11. PREPAYMENTS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 1,964,832	\$ 4,195,293	\$ 142,143
Software and hardware maintenance	102,201	410,679	13,914
Prepayments to suppliers	245,398	248,617	8,424
Services	169,500	143,500	4,862
Insurance	8,433	7,521	255
Molding equipment	7,852	73,710	2,497
Marketing	199,508	-	-
Others	<u>36,237</u>	<u>27,151</u>	<u>921</u>
	<u>\$ 2,733,961</u>	<u>\$ 5,106,471</u>	<u>\$ 173,016</u>

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of March 31, 2011 and 2012, the noncurrent prepayments of NT\$3,250,397 thousand and NT\$5,325,294 thousand (US\$180,430 thousand), respectively, were classified as other assets (Note 28 has more information).

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

Prepayments for others were primarily for rent and travel expenses.

12. HELD-TO-MATURITY FINANCIAL ASSETS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Corporate bonds	<u>\$ 207,120</u>	<u>\$ 203,764</u>	<u>\$ 6,904</u>

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

13. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of March 31, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 16,941
BandRich Inc.	15,861	15,861	537
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>40</u>
	517,053	517,053	17,518
Less: Accumulated impairment loss	<u>(1,192)</u>	<u>(1,192)</u>	<u>(40)</u>
	<u>\$ 515,861</u>	<u>\$ 515,861</u>	<u>\$ 17,478</u>

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

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

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

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of March 31, 2011 and 2012 were as follows:

	2011		2012				Ownership Percentage
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
			NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method							
H.T.C. (B.V.I.) Corp.	\$ 1,069,728	100.00	\$ 2,552,638	\$ 86,487	\$ 2,933,536	\$ 99,393	100.00
Communication Global Certification Inc.	416,590	100.00	380,000	12,875	502,892	17,039	100.00
High Tech Computer Asia Pacific Pte. Ltd.	8,769,250	100.00	21,753,619	737,049	26,550,634	899,579	100.00
HTC Investment Corporation	300,940	100.00	300,000	10,165	301,715	10,223	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	62	2	1.00
HTC I Investment Corporation	295,929	100.00	295,000	9,995	296,150	10,034	100.00
HTC Holding Cooperatief U.A.	13	1.00	13	1	13	1	1.00
Huada Digital Corporation	245,800	100.00	250,000	8,470	250,778	8,496	50.00
HTC Investment One (BVI) Corporation	-	-	9,309,121	315,408	8,832,190	299,249	100.00
Prepayments for long-term investments	2,879,394		432,301	14,647	432,301	14,647	
	<u>\$ 13,977,706</u>		<u>\$ 35,272,754</u>	<u>\$1,195,099</u>	<u>\$ 40,100,271</u>	<u>\$1,358,663</u>	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. and accounted for this investment by the equity method. In 2011, the Company made a new investment of NT\$1,696,812 thousand in H.T.C. (B.V.I.) Corp. The Company made a new investment of NT\$34,740 thousand (US\$1,177 thousand) in H.T.C. (B.V.I.) Corp in 2012. As of March 31, 2012, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to NT\$2,587,378 thousand (US\$87,664 thousand). Because the registration of this investment had not been completed as of March 31, 2012, an amount of NT\$34,740 thousand (US\$1,177 thousand) was temporarily accounted for under "prepayments for long-term investments."

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc. for NT\$280,000 thousand and accounted for this investment by the equity method. The Company increased this investment by NT\$100,000 thousand in 2010. As of March 31, 2012, the Company's investment in Communication Global Certification Inc. had amounted to NT\$380,000 thousand (US\$12,875 thousand).

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. ("High Tech Asia") and accounted for this investment by the equity method. In 2011, the Company increased this investment by NT\$11,817,735 thousand. The Company increased this investment by NT\$3,373,935 thousand (US\$114,314 thousand) in 2012. As of March 31, 2012, the Company's investment in High Tech Asia had amounted to NT\$21,753,619 thousand (US\$737,049 thousand).

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

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

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

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

In August 2011, the Company acquired 100% equity interest in HTC Investment One (BVI) Corporation for NT\$9,625,903 thousand and accounted for this investment by the equity method. The Company increased this investment by NT\$35,733 thousand (US\$1,211 thousand) in 2012. As of March 31, 2012, the Company’s investment in HTC Investment One (BVI) Corporation amounted to NT\$9,661,636 thousand (US\$327,352 thousand). Because the registration of this investment had not been completed as of March 31, 2012, an amount of NT\$352,515 thousand (US\$11,944 thousand) was temporarily accounted for under “prepayments for long-term investments.”

In February 2012, the Company acquired 100% equity interest in FunStream Corporation for NT\$45,090 thousand (US\$1,528 thousand) and accounted for this investment by the equity method. Because the registration of this investment had not been completed as of March 31, 2012, the amount was temporarily accounted for under “prepayments for long-term investments.”

On its equity-method investments, the Company had gains of NT\$838,666 thousand and NT\$137,243 thousand (US\$4,650 thousand) for the three months ended March 31, 2011 and 2012, respectively.

Under orders VI-0960064017 and VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the three months ended March 31, 2011 and 2012. All significant intercompany balances and transactions have been eliminated.

15. PROPERTIES

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

	2011		2012		
	Carrying Value NT\$	Cost NT\$	Accumulated Depreciation NT\$	Carrying Value NT\$	US\$ (Note 3)
Land	\$ 5,690,718	\$ 7,462,489	\$ -	\$ 7,462,489	\$ 252,841
Buildings and structures	2,750,031	3,727,146	976,533	2,750,613	93,195
Machinery and equipment	2,082,884	7,259,857	4,430,580	2,829,277	95,861
Computer equipment	81,887	409,959	311,978	97,981	3,320
Transportation equipment	4,500	6,570	3,025	3,545	120
Furniture and fixtures	27,585	210,584	141,209	69,375	2,351
Leased assets	589	4,712	4,712	-	-
Leasehold improvements	76,090	216,680	90,265	126,415	4,283
Prepayments for land, construction-in-progress and equipment-in-transit	524,895	3,097,644	-	3,097,644	104,953
	<u>\$ 11,239,179</u>	<u>\$ 22,395,641</u>	<u>\$ 5,958,302</u>	<u>\$ 16,437,339</u>	<u>\$ 556,924</u>

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

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

There were no interests capitalized for the three months ended March 31, 2011 and 2012, respectively.

16. ACCRUED EXPENSES

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 21,233,334	\$ 16,445,199	\$ 557,190
Bonus to employees	11,677,761	7,688,168	260,488
Salaries and bonuses	1,539,330	2,374,968	80,468
Services	2,935,002	2,212,750	74,972
Research materials	774,724	1,537,461	52,092
Import, export and freight	823,881	607,942	20,598
Donation	332,800	292,800	9,921
Insurance	144,884	201,266	6,819
Repair and maintenance	81,459	146,105	4,950
Pension cost	80,013	114,088	3,865
Meals and welfare	133,647	113,717	3,853
Others	<u>67,695</u>	<u>173,772</u>	<u>5,888</u>
	<u>\$ 39,824,530</u>	<u>\$ 31,908,236</u>	<u>\$ 1,081,104</u>

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

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

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

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

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

17. OTHER CURRENT LIABILITIES

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Warranty expenses	\$ 11,091,867	\$ 12,509,620	\$ 423,847
Provisions for contingent loss on purchase orders	2,233,752	2,087,892	70,741
Other payables	265,336	583,456	19,768
Agency receipts	355,982	288,003	9,758
Advance receipts	372,536	81,443	2,759
Deferred credits - gain from intercompany transactions	382,758	1,057,903	35,844
Others	<u>422,191</u>	<u>697,729</u>	<u>23,640</u>
	<u>\$ 15,124,422</u>	<u>\$ 17,306,046</u>	<u>\$ 586,357</u>

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

Other payables were payables for patents, miscellaneous expenses of overseas sales offices, repair materials and agency receipts for staff sales.

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

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

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

18. PENSION PLAN

The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions for the three months ended March 31, 2011 and 2012 were NT\$75,735 thousand and NT\$106,431 thousand (US\$3,606 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund was 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee's name. The pension fund balances were NT\$457,712 thousand and NT\$488,091 thousand (US\$16,537 thousand) as of March 31, 2011 and 2012, 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 three months ended March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Balance, beginning of period	\$ 158,945	\$ 183,827	\$ 6,228
Contributions	(1,031)	(998)	(34)
Payments	<u>9,984</u>	<u>6,406</u>	<u>217</u>
Balance, end of period	<u>\$ 167,898</u>	<u>\$ 189,235</u>	<u>\$ 6,411</u>

19. STOCKHOLDERS' EQUITY

Capital Stock

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

Global Depositary Receipts

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 March 31, 2012, there were 6,708.9 thousand units of GDRs redeemed, representing 26,835.6 thousand common shares, and the outstanding GDRs represented 9,224.9 thousand common shares or 1.11% of 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.

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

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

Treasury stock transactions and expired stock options

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

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

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

Long-term equity investments

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

Merger

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

Appropriation of Retained Earnings and Dividend Policy

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

- a. To pay taxes.
- b. To cover accumulated losses, if any.
- c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital.
- d. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above subparagraphs 1 to 3.
- e. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above subparagraphs 1 to 3, or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include employees serving with affiliates who meet specific requirements. Such specific requirements shall be prescribed by the board of directors.
- f. For any remainder, the board of directors shall propose allocation ratios based on the dividend policy set forth in the Company's Article and propose them at the shareholders' meeting.

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

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

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

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

20. TREASURY STOCK

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

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

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

(In Thousands of Shares)

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

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

21. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

Function Expense Item	Three Months Ended March 31								
	2011			2012					
	NT\$			NT\$			US\$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	\$ 1,438,872	\$ 4,146,098	\$ 5,584,970	\$ 1,310,479	\$ 2,266,572	\$ 3,577,051	\$ 44,401	\$ 76,795	\$ 121,196
Salary	1,213,497	3,956,814	5,170,311	1,009,362	1,991,810	3,001,172	34,199	67,486	101,685
Insurance	79,174	65,454	144,628	113,318	95,434	208,752	3,839	3,233	7,072
Pension cost	34,287	42,479	76,766	46,086	61,343	107,429	1,562	2,078	3,640
Other	111,914	81,351	193,265	141,713	117,985	259,698	4,801	3,998	8,799
Depreciation	116,836	93,074	209,910	150,112	130,761	280,873	5,086	4,430	9,516
Amortization	14,109	1,036	15,145	126,773	6,121	132,894	4,295	208	4,503

22. INCOME TAX

The Company's income tax returns through 2008 had been examined by the tax authorities. However, the Company disagreed with the tax authorities' assessment on its return for 2002 and applied for the administrative litigation of this return. Nevertheless, under the conservatism guideline, 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 wireless or smartphone which has 3G or GPS function	2006.12.20-2011.12.19
Sales of wireless or smartphone which has 3G or GPS function	2007.12.20-2012.12.19
Sales of wireless or smartphone which has 3.5G function	2010.01.01-2014.12.31
Sales of wireless or smartphone which has 3.5G function (application for exemption under review by the Ministry of Finance as of March 31, 2012)	2012.01.01-2016.12.31

Income taxes payable for the three months ended March 31, 2011 and 2012 were computed as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Income before income tax	\$ 16,667,385	\$ 4,897,817	\$ 165,946
Gains on equity-method investments	(838,666)	(137,243)	(4,650)
Realized pension cost	(8,952)	(5,408)	(183)
Unrealized (realized) loss on decline in value of inventory	343,313	(687,356)	(23,289)
Unrealized royalties	3,874,811	456,370	15,463
Unrealized exchange gain	(1,873,073)	(1,696,013)	(57,464)
(Realized) unrealized bad debt expenses	(40,313)	640,024	21,685
Capitalized expenses	(24,359)	(46,426)	(1,573)
Realized valuation gain on financial instruments	593,927	467,706	15,847
Unrealized (realized) warranty expenses	2,034,817	(245,644)	(8,323)
Unrealized (realized) marketing expenses	5,490,481	(3,644,703)	(123,489)
Unrealized (realized) profit from intercompany transactions	37,303	(93,628)	(3,172)
Unrealized contingent losses of purchase orders	291,606	35,012	1,186
Realized research materials expenses	-	(10,750)	(364)

(Continued)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Unrealized sales allowance	\$ -	\$ 408,076	\$ 13,826
Other	<u>(54,483)</u>	<u>736,878</u>	<u>24,967</u>
Total income	26,493,797	1,074,712	36,413
Less: Tax-exempt income	<u>(22,799,802)</u>	<u>(747,898)</u>	<u>(25,340)</u>
Taxable income	3,693,995	326,814	11,073
Tax rate	<u>17%</u>	<u>17%</u>	<u>17%</u>
Estimated income tax provision	627,979	55,558	1,882
Unappropriated earnings (additional 10% income tax)	-	-	-
Less: Investment research and development tax credits	<u>-</u>	<u>-</u>	<u>-</u>
Income tax payable determined pursuant to the Income Tax Law	<u>\$ 627,979</u>	<u>\$ 55,558</u>	<u>\$ 1,882</u>
Alternative minimum tax	\$ 2,649,179	\$ 107,272	\$ 3,634
Less: Prepaid and withheld income tax	(10,668)	(15,165)	(514)
Prior years' income tax payable	<u>6,416,667</u>	<u>9,653,090</u>	<u>327,063</u>
Income tax payable	<u>\$ 9,055,178</u>	<u>\$ 9,745,197</u>	<u>\$ 330,183</u> (Concluded)

The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. As a result, the current income tax payable as of March 31, 2011 and 2012 should be NT\$2,649,179 thousand and NT\$107,272 thousand (US\$3,634 thousand), respectively.

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	\$ 642,602	\$ 670,453	\$ 22,716
Unrealized warranty expenses	1,885,617	2,126,635	72,054
Capitalize expenses	70,270	67,293	2,280
Unrealized royalties	3,538,139	4,895,328	165,862
Unrealized marketing expenses	3,609,667	2,795,684	94,722
Unrealized contingent losses of purchase orders	379,738	354,942	12,026
Unrealized valuation loss on financial instruments	24,421	35,842	1,214
Unrealized bad-debt expenses	57,499	262,160	8,882
Unrealized research materials	-	136,674	4,631
			(Continued)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Unrealized sales allowance	\$ -	\$ 141,247	\$ 4,786
Others	1,752	200,595	6,796
Tax credit carryforwards	<u>3,141,129</u>	<u>3,123,594</u>	<u>105,833</u>
Total deferred tax asset	13,350,834	14,810,447	501,802
Less: Valuation allowance	<u>(8,896,426)</u>	<u>(9,725,027)</u>	<u>(329,500)</u>
Total deferred tax asset, net	4,454,408	5,085,420	172,302
Deferred tax liability			
Unrealized exchange gain	(266,197)	(150,230)	(5,090)
Unrealized pension cost	(28,543)	(32,170)	(1,090)
Other	<u>-</u>	<u>(112,551)</u>	<u>(3,813)</u>
	4,159,668	4,790,469	162,309
Less: Current portion	<u>(1,088,510)</u>	<u>(1,364,477)</u>	<u>(46,231)</u>
Deferred tax assets, noncurrent	<u>\$ 3,071,158</u>	<u>\$ 3,425,992</u>	<u>\$ 116,078</u> (Concluded)

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	2011	2012	
		NT\$	NT\$	US\$ (Note 3)
2008	2008-2012	\$ 831,154	\$ 813,302	\$ 27,556
2009	2009-2013	2,309,975	2,310,286	78,276
2010	2010-2014	<u>-</u>	<u>6</u>	<u>1</u>
		<u>\$ 3,141,129</u>	<u>\$ 3,123,594</u>	<u>\$ 105,833</u>

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

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 2,649,179	\$ 107,272	\$ 3,634
(Increase) decrease in deferred income tax assets	<u>(814,658)</u>	<u>323,353</u>	<u>10,956</u>
Income tax	<u>\$ 1,834,521</u>	<u>\$ 430,625</u>	<u>\$ 14,590</u>

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

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

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

When calculating the expected creditable ratio for the three months ended March 31, 2011 and 2012, the income tax payable as of March 31, 2011 and 2012 were included.

23. EARNINGS PER SHARE

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

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

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

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

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	<u>March 31</u>					
	<u>2011</u>		<u>2012</u>			
	<u>Carrying</u> <u>Amount</u> <u>NT\$</u>	<u>Fair</u> <u>Value</u> <u>NT\$</u>	<u>Carrying Amount</u>		<u>Fair Value</u>	
		<u>NT\$</u>	<u>US\$</u> <u>(Note 3)</u>	<u>NT\$</u>	<u>US\$</u> <u>(Note 3)</u>	
<u>Assets</u>						
Available-for-sale financial assets - current	\$ 442,557	\$ 442,557	\$ 737,392	\$ 24,984	\$ 737,392	\$ 24,984
Available-for-sale financial assets - noncurrent	530	530	324	11	324	11
Held-to-maturity financial assets - noncurrent	207,120	206,746	203,764	6,904	203,093	6,881
Financial assets carried at cost	515,861	515,861	515,861	17,478	515,861	17,478

b. Derivative financial instruments

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

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

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

The financial instruments exclude refundable deposits and 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 with no quoted market prices.

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	March 31			March 31		
	2011	2012	US\$	2011	2012	US\$
	NT\$	NT\$	(Note 3)	NT\$	NT\$	(Note 3)
Assets						
Available-for-sale financial assets - current	\$ 442,557	\$ 737,392	\$ 24,984	\$ -	\$ -	\$ -
Available-for-sale financial assets - noncurrent	530	324	11	-	-	-
Held-to-maturity financial assets - noncurrent	206,746	203,093	6,881	-	-	-
Financial assets carried at cost	-	-	-	515,861	515,861	17,478
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	-	-	143,651	210,837	7,144

The Company recognized unrealized gains of NT\$601 thousand and NT\$114,152 thousand (US\$3,868 thousand) for the three months ended March 31, 2011 and 2012, respectively, under stockholders' equity for the changes in fair value of available-for-sale financial assets.

As of March 31, 2011 and 2012, financial assets exposed to fair value interest rate risk amounted to NT\$207,120 thousand and NT\$203,764 thousand (US\$6,904 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$73,390,448 thousand and NT\$37,798,853 thousand (US\$1,280,687 thousand), respectively.

Financial Risks

a. Market risk

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

b. Credit risk

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

c. Cash flow risk

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

Under the regulations of the Securities and Futures Bureau, the derivative contracts that subsidiaries entered into are briefly disclosed as follows:

Saffron Digital Ltd.

Saffron Digital Ltd. (“Saffron”) entered into derivative contracts to manage exposures due to exchange rate fluctuations. Saffron’s derivative contracts did not meet the criteria for hedge accounting and thus were not classified as a financial asset or a financial liability held for trading. The fair values of these derivatives were determined using valuation techniques incorporating estimates, and changes in fair value of these derivatives were recognized directly in profit or loss for the period.

The Company acquired Saffron in January 2011. Saffron had settled the forward exchange contracts as of March 31, 2011, and the realized settlement loss on these contracts was NT\$1,074 thousand.

25. RELATED-PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

<u>Related Party</u>	<u>Relationship with the Company</u>
Xander International Corp.	Chairperson is an immediate relative of the Company’s chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Way-Lien Technology Co., Ltd	Significant stockholder of the Company
Faith Hope & Love Limited	Its significant stockholder in substance is the Company’s chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC Investment Corporation	Subsidiary
HTC I Investment Corporation	Subsidiary
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
Exedeia 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.
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.

(Continued)

Related Party	Relationship with the Company
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.
HTC BLR	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 RUS 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.
HTC Investment One (BVI) Corp.	Subsidiary
Inquisitive Minds, Inc.	Subsidiary of HTC America Holding Inc.
Beats Electronics, LLC	Subsidiary of HTC America Holding Inc.
HTC Communication Technologies (SH)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
FunStream Corporation	Subsidiary
Employees' Welfare Committee	Employees' Welfare Committee of HTC Corporation
HTC Cultural and Educational Foundation	A nonprofit organization with over one third of its total funds donated by the Company

(Concluded)

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	Three Months Ended March 31				
	2011		2012		
	Amount	% of Total	Amount	% of Total	
NT\$	Net Purchases	NT\$	US\$	Net Purchases	
(Note 3)					
HTC Electronics (Shanghai) Co., Ltd.	\$ 67,486	-	\$ 1,069,590	\$ 36,239	3
Chander Electronics Corp.	113,719	-	-	-	-
	<u>\$ 181,205</u>	<u>-</u>	<u>\$ 1,069,590</u>	<u>\$ 36,239</u>	<u>3</u>

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

Sales and Services Provided

Related Party	Three Months Ended March 31				
	2011		2012		
	Amount	% of Total Revenues	Amount		% of Total Revenues
	NT\$		NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 48,695,957	48	\$ 7,358,106	\$ 249,305	11
HTC Communication Co., Ltd.	2,588,808	3	4,658,257	157,829	7
Faith Hope & Love Limited	-	-	2,235,827	75,754	4
Employees' Welfare Committee	52,450	-	219,617	7,441	-
Others	<u>32,409</u>	<u>-</u>	<u>48,897</u>	<u>1,656</u>	<u>-</u>
	<u>\$ 51,369,624</u>	<u>51</u>	<u>\$ 14,520,704</u>	<u>\$ 491,985</u>	<u>22</u>

The selling prices for products sold to related parties were similar to those sold to third parties, except those for HTC America Inc., HTC Communication Co., Ltd., Employees' Welfare Committee and Faith Hope & Love Limited. The collection terms for products sold to related parties were similar to those for sales to third parties, except HTC America Inc.

Accounts Receivable

Related Party	March 31				
	2011		2012		
	Amount	% of Total Accounts Receivable	Amount		% of Total Accounts Receivable
	NT\$		NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 31,136,355	50	\$ 16,069,680	\$ 544,468	30
HTC Communication Co., Ltd.	1,419,837	2	2,143,025	72,609	4
Faith Hope & Love Limited	-	-	1,328,042	44,996	3
Others	<u>101,359</u>	<u>-</u>	<u>318,722</u>	<u>10,799</u>	<u>1</u>
	<u>\$ 32,657,551</u>	<u>52</u>	<u>\$ 19,859,469</u>	<u>\$ 672,872</u>	<u>38</u>

Accounts Payable

Related Party	March 31				
	2011		2012		
	Amount	% of Total Accounts Payable	Amount		% of Total Accounts Payable
	NT\$		NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 3,032,017	5	\$ 3,261,019	\$ 110,489	5
Chander Electronics Corp.	<u>128,179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,160,196</u>	<u>5</u>	<u>\$ 3,261,019</u>	<u>\$ 110,489</u>	<u>5</u>

Other Receivable

Related Party	March 31				
	2011		2012		
	Amount	% of Total Other Receivable	Amount	US\$	% of Total Other Receivable
	NT\$		NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 55,669	4	\$ 23,963	\$ 812	3
HTC EUROPE CO., LTD.	1,009	-	2,272	77	-
Others	<u>1,084</u>	<u>-</u>	<u>249</u>	<u>8</u>	<u>-</u>
	<u>\$ 57,762</u>	<u>4</u>	<u>\$ 26,484</u>	<u>\$ 897</u>	<u>3</u>

Prepaid Expenses

Related Party	March 31				
	2011		2012		
	Amount	% of Total Prepayment	Amount	US\$	% of Total Prepayment
	NT\$		NT\$	US\$ (Note 3)	
HTC America Innovation Inc.	\$ 140,224	3	\$ 125,531	\$ 4,253	2
HTC NIPPON Corporation	23,075	1	6,084	206	-
Others	<u>5,589</u>	<u>-</u>	<u>87</u>	<u>3</u>	<u>-</u>
	<u>\$ 168,888</u>	<u>4</u>	<u>\$ 131,702</u>	<u>\$ 4,462</u>	<u>2</u>

Accrued Expenses

Related Party	March 31				
	2011		2012		
	Amount	% of Total Accrued Expenses	Amount	US\$	% of Total Accrued Expenses
	NT\$		NT\$	US\$ (Note 3)	
HTC EUROPE CO., LTD.	\$ 982,837	2	\$ 447,557	\$ 15,164	2
High Tech Computer Asia Pacific Pte. Ltd.	210,710	1	306,482	10,384	1
HTC Cultural and Educational Foundation	217,800	1	217,800	7,379	1
HTC HK, Limited	-	-	163,910	5,554	1
Communication Global Certification Inc.	35,451	-	90,397	3,063	-
HTC (Australia and New Zealand) Pty. Ltd.	201,734	1	85,265	2,889	-
HTC India Private Limited	132,049	-	74,191	2,514	-
ABAXIA SAS	12,933	-	67,031	2,271	-
HTC BRASIL	348	-	60,459	2,048	-
HTC (Thailand) Ltd.	40,869	-	50,397	1,708	-
Saffron Digital Ltd.	17,037	-	37,950	1,286	-
HTC Nordic ApS.	16,780	-	30,824	1,044	-
HTC Communication Canada, Ltd.	-	-	28,269	958	-

(Continued)

Related Party	March 31				
	2011		2012		
	Amount	% of Total Accrued Expenses	Amount		% of Total Accrued Expenses
			NT\$	US\$ (Note 3)	
HTC Belgium BVBA/SPRL PT. High Tech Computer Indonesia	\$ 47,199	-	\$ 27,721	\$ 939	-
HTC Germany GmbH.	-	-	24,117	817	-
HTC Malaysia Sdn. Bhd.	15,169	-	16,108	546	-
HTC FRANCE CORPORATION	10,432	-	16,031	543	-
HTC Innovation Limited	12,685	-	13,981	474	-
High Tech Computer (H.K.) Limited	4,409	-	13,096	444	-
HTC America Innovation Inc.	135,805	-	-	-	-
Others	36,021	-	-	-	-
	<u>38,137</u>	<u>-</u>	<u>41,299</u>	<u>1,399</u>	<u>-</u>
	<u>\$ 2,168,405</u>	<u>5</u>	<u>\$ 1,812,885</u>	<u>\$ 61,424</u>	<u>5</u>

(Concluded)

Other Payables to Related Parties

Related Party	March 31				
	2011		2012		
	Amount	% of Total Other Payables	Amount		% of Total Other Payables
			NT\$	US\$ (Note 3)	
Employees' Welfare Committee	\$ -	-	\$ 173,614	\$ 5,882	30
HTC America Inc.	54,801	21	81,065	2,747	14
HTC Communication Technologies (SH)	-	-	40,750	1,381	7
HTC Innovation Limited	-	-	34,133	1,156	6
HTC Corporation (Shanghai WGQ)	23,150	9	21,214	719	4
High Tech Computer Asia Pacific Pte. Ltd.	47,671	18	5,740	194	1
HTC America Innovation Inc.	85,589	32	-	-	-
HTC EUROPE CO., LTD.	33,699	13	-	-	-
Saffron Digital Ltd.	13,544	5	-	-	-
Others	<u>6,882</u>	<u>2</u>	<u>5,581</u>	<u>189</u>	<u>-</u>
	<u>\$ 265,336</u>	<u>100</u>	<u>\$ 362,097</u>	<u>\$ 12,268</u>	<u>62</u>

Outsourcing Expenses

Related Party	Three Months Ended March 31				% of Total Out- sourcing Expenses
	2011		2012		
	Amount NT\$	% of Total Out- sourcing Expenses	Amount NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 4,696,337	99	\$ 1,447,397	\$ 49,040	99

Warranty Expenses

Related Party	Three Months Ended March 31				% of Warranty Expenses
	2011		2012		
	Amount NT\$	% of Warranty Expenses	Amount NT\$	US\$ (Note 3)	
HTC Corporation (Shanghai WGQ)	\$ 38,833	1	\$ 61,530	\$ 2,085	3
High Tech Computer Asia Pacific Pte. Ltd.	15,322	1	26,874	911	1
HTC EUROPE CO., LTD	76,848	2	14,949	506	1
HTC BRASIL	1,899	-	7,775	263	-
HTC HK, Limited	-	-	7,307	248	-
High Tech Computer (H.K.) Limited	8,360	-	-	-	-
Others	6,242	-	8,154	276	-
	\$ 147,504	4	\$ 126,589	\$ 4,289	5

Commission Expenses

Related Party	Three Months Ended March 31				% of Commission Expenses
	2011		2012		
	Amount NT\$	% of Commission Expenses	Amount NT\$	US\$ (Note 3)	
HTC EUROPE CO., LTD.	\$ 1,551,893	87	\$ 1,036,213	\$ 35,109	79
HTC Belgium BVBA/SPRL	63,715	4	62,303	2,111	5
HTC Nordic ApS.	46,269	2	48,461	1,642	4
HTC FRANCE CORPORATION	36,896	2	47,085	1,595	4
HTC Germany GmbH.	45,289	2	35,477	1,202	3
HTC Iberia S.L.	20,303	1	19,600	664	1
Others	33,100	2	58,694	1,989	4
	\$ 1,797,465	100	\$ 1,307,833	\$ 44,312	100

Service and Marketing Fees

Related Party	Three Months Ended March 31				
	2011		2012		
	Amount	% of Total Service Fees	Amount		% of Total Service Fees
			NT\$	NT\$	
HTC America Innovation Inc.	\$ 177,857	4	\$ 396,282	\$ 13,427	9
High Tech Computer Asia Pacific Pte. Ltd.	196,432	4	260,306	8,820	6
HTC Communication Technologies (SH)	-	-	172,845	5,856	4
HTC (Australia and New Zealand) Pty. Ltd.	140,763	3	138,776	4,702	3
Saffron Digital Ltd.	11,616	-	135,037	4,575	3
HTC India Private Limited	103,488	2	103,026	3,491	2
HTC BRASIL	20,098	-	88,618	3,003	2
HTC HK, Limited	-	-	81,948	2,777	2
Communication Global Certification Inc.	47,496	1	80,775	2,737	2
ABAXIA SAS	33,985	1	66,897	2,266	2
PT. High Tech Computer Indonesia	-	-	47,398	1,606	2
HTC NIPPON Corporation	34,111	1	43,312	1,467	1
One & Company Design Inc.	36,589	1	43,179	1,463	1
HTC Innovation Limited	62,994	2	37,260	1,262	1
HTC Communication Canada, Ltd.	-	-	36,265	1,229	1
HTC (Thailand) Ltd.	34,228	1	35,682	1,209	1
HTC Malaysia Sdn. Bhd.	39,046	1	32,911	1,115	1
High Tech Computer (H.K.) Limited	98,939	2	-	-	-
Others	3,878	-	827	28	-
	<u>\$ 1,041,520</u>	<u>23</u>	<u>\$ 1,801,344</u>	<u>\$ 61,033</u>	<u>43</u>

Leasing - Lessee

Operating expenses - rental expenses

Related Party	Three Months Ended March 31				
	2011		2012		
	Amount	% of Rental Expense	Amount		% of Rental Expense
			NT\$	NT\$	
VIA Technologies Inc.	<u>\$ 1,302</u>	<u>4</u>	<u>\$ 1,302</u>	<u>\$ 44</u>	<u>4</u>

The Company leased offices and staff dormitory 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.

Trademark and Technology License Agreement

Beats Electronics, LLC

In order to enhance the product diversity, the Company entered into a trademark and technology license agreement with Beats Electronics, LLC. The agreement took effect in August 2011 and will end in December 2016. The royalty expense for three months ended March 31, 2012 was NT\$17,481 thousand (US\$592 thousand), and the prepayment for royalty was NT\$135,906 thousand (US\$4,605 thousand) as of March 31, 2012.

Dashwire, Inc.

In order to enhance the product diversity, the Company entered into a technology license agreement with Dashwire, Inc. The agreement took effect in January 2012 and will end in December 2012. The royalty expense for three months ended March 31, 2012 was NT\$16,552 thousand (US\$561 thousand), and the prepayment for royalty was NT\$12,976 thousand (US\$440 thousand) as of March 31, 2012.

Property transaction

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

Endorsement/Guarantee Provided

Note 27 has more information.

Patent Litigation

Note 29 has more information.

26. PLEDGED ASSETS

As of March 31, 2011 and 2012, the Company had provided time deposits of NT\$63,900 thousand and NT\$34,100 thousand (US\$1,155 thousand), respectively, to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

27. COMMITMENTS AND CONTINGENCIES

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

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

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

28. SIGNIFICANT CONTRACTS

Patent Agreements

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

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

(Continued)

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

(Concluded)

29. OTHER EVENTS

Lawsuit

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

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

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

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

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

- b. In March 2010, Apple Inc. (“Apple”) filed a lawsuit against the Company, 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 and selling devices in the United States and damage compensation, respectively. The Company subsequently filed ITC investigation and filed counterclaim with Delaware court against Apple for patent infringements. The Company requested ITC and Delaware court to prevent Apple from importing and selling devices in the United States and damage compensation, respectively.

In November 2011, the Company acquired the business operation and ownership of patent portfolio of S3 Graphics Co., Ltd. (S3 Graphics). In July 2011, Apple filed another ITC investigation and a companion district court case in Delaware against the Company alleging patent infringement (ITC No. 337-TA-797). In August 2011, the Company filed another ITC investigation and a companion district court case in Delaware against Apple alleging patent infringement (ITC No. 337-TA-808). On September 22, 2011, S3 Graphics filed another ITC investigation (ITC No. 337-TA-813) and a companion district court case in Delaware against Apple alleging infringement of its patents.

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

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

- c. In January 2012, Eastman Kodak (Kodak) filed a lawsuit against the Company, HTC America Inc. and Exedea Inc. concurrently with the U.S. International Trade Commission (ITC) and U.S. District Court of Western District of New York (New York court), alleging that these companies infringed its patents. Kodak requested ITC and New York court to prevent the Company from exporting to and selling in United States devices made using Kodak’s patents and damage compensation, respectively. The Company evaluated that there was indirect association between the patents used by the Company’s devices and those claimed by Kodak. The Company believes the lawsuits have limited impact on its financial results or sales activities. As of April 24, 2012, the date of the accompanying independent accountants’ review report, there had been no further hearing nor had a court decision been made.
- d. The Company had shared lawsuit-related costs on the basis of common benefits and agreements between its vendors and customers. For the three months ended March 31, 2012, companies that the Company shared lawsuit-related costs with included VIA Technologies Inc. and its subsidiaries.
- e. On the basis of its past experience and consultations with its legal counsel, the Company has evaluated the possible effects of the above lawsuits on its business and financial condition as well as on relevant matters.

Construction for Taipei R&D headquarter

In September 2009, the Company’s board of directors resolved to build the Taipei R&D headquarters in Xindian City and the land was bought from Yulon Motors Ltd. The estimated budget for the construction is NT\$3,380,000 thousand for a total floor space of 92 thousand square meters. Construction has been completed in April 2012.

Other

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

	March 31			
	2011		2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 2,080,620	29.41	\$ 2,681,575	29.51
EUR	493,617	41.72	443,980	39.41
GBP	72,963	47.46	26,565	47.25
JPY	1,855,020	0.3549	16,964	0.3593
RMB	-	-	767,354	4.6737
Investments accounted for by the equity method				
USD	86,901	29.41	411,765	29.51
SGD	435,494	23.34	1,130,322	23.49
<u>Financial liabilities</u>				
Monetary items				
USD	2,748,725	29.41	2,906,571	29.51
EUR	497,055	41.72	501,665	39.41
GBP	64,424	47.46	34,966	47.25
JPY	1,488,625	0.3549	572,441	0.3593
RMB	-	-	594,546	4.6737

30. SEGMENT DISCLOSURES

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

Selected financial information was as follows:

Geographical Areas

The Company's non-current assets located in an individual foreign country were immaterial. Revenues from domestic and overseas customers for the three months ended March 31, 2011 and 2012 were as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Taiwan	\$ 4,266,242	\$ 6,687,760	\$ 226,592
Country U	49,307,200	8,639,059	292,706
Country V	1,833,330	7,106,912	240,794
Country W	3,239,523	6,601,041	223,654
Country X	2,672,496	4,663,933	158,022

(Continued)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Country Y	8,144,623	4,451,846	150,836
Country Z	5,375,186	3,416,649	115,762
Others	<u>26,180,348</u>	<u>23,390,134</u>	<u>792,496</u>
	<u>\$ 101,018,948</u>	<u>\$ 64,957,334</u>	<u>\$ 2,200,862</u> (Concluded)

Major Customers

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

Customer	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
A	\$ 6,934,357	\$ 7,478,484	\$ 253,383
B	<u>48,695,957</u>	<u>7,358,106</u>	<u>249,305</u>
	<u>\$ 55,630,314</u>	<u>\$ 14,836,590</u>	<u>\$ 502,688</u>