

HTC Corporation

**Financial Statements for the
Nine Months Ended September 30, 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 September 30, 2011 and 2012, and the related statements of income and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

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

We have also reviewed the consolidated financial statements of HTC Corporation and subsidiaries as of and for the nine months ended September 30, 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.

October 26, 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 SEPTEMBER 30, 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)		NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents (Notes 2 and 5)	\$ 86,534,104	\$ 36,817,473	\$ 1,255,990				Financial liabilities at fair value through profit or loss - current (Notes 2, 6 and 25)	\$ -	\$ 137,633	\$ 4,695			
Financial assets at fair value through profit or loss - current (Notes 2, 6 and 25)	220,609	-	-				Hedging derivative liabilities - current (Notes 2, 8 and 25)	-	82,213	2,805			
Available-for-sale financial assets - current (Notes 2 and 7)	734,698	-	-				Notes and accounts payable	79,636,438	61,896,602	2,111,539			
Accounts receivable, net (Notes 2 and 9)	35,816,172	18,767,619	640,238				Accounts payable to related parties (Note 26)	3,512,603	3,969,880	135,428			
Accounts receivable from related parties, net (Notes 2 and 26)	44,685,159	24,600,975	839,237				Income tax payable (Notes 2 and 23)	8,949,877	1,445,138	49,300			
Other receivables - related parties (Note 26)	31,838	6,677,978	227,813				Accrued expenses (Notes 17 and 26)	49,917,483	31,965,913	1,090,484			
Other current financial assets (Note 10)	1,816,486	832,540	28,401				Payable for purchase of equipment	352,887	1,384,995	47,248			
Inventories (Notes 2 and 11)	27,762,928	18,818,449	641,972				Other current liabilities (Notes 2, 18 and 26)	18,625,791	14,041,148	478,999			
Prepayments (Notes 12 and 26)	6,204,337	5,178,506	176,660				Total current liabilities	160,995,079	114,923,522	3,920,498			
Deferred income tax assets (Notes 2 and 23)	1,748,115	1,749,526	59,683				OTHER LIABILITIES						
Restricted assets - current (Note 27)	-	3,645,820	124,373				Guarantee deposits received	628	598	20			
Other current assets	803,169	365,313	12,462				Total liabilities	160,995,707	114,924,120	3,920,518			
Total current assets	206,357,615	117,454,199	4,006,829				STOCKHOLDERS' EQUITY (Note 20)						
INVESTMENTS							Capital stock - NT\$10.00 par value						
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	406	183	6				Authorized: 1,000,000 thousand shares						
Held-to-maturity financial assets - noncurrent (Notes 2 and 13)	205,441	202,070	6,893				Issued and outstanding: 862,052 thousand shares in 2011 and 852,052 thousand shares in 2012	8,620,521	8,520,521	290,669			
Financial assets carried at cost - noncurrent (Notes 2 and 14)	515,861	515,861	17,598				Capital surplus						
Investments accounted for by the equity method (Notes 2 and 15)	17,109,111	41,565,612	1,417,969				Additional paid-in capital - issuance of shares in excess of par	14,983,419	14,809,608	505,215			
Prepayments for long-term investments (Notes 2 and 15)	349,002	45,040	1,536				Treasury stock transactions	1,750,767	1,730,458	59,033			
Total long-term investments	18,179,821	42,328,766	1,444,002				Long-term equity investments	18,411	18,037	615			
PROPERTIES (Notes 2, 16 and 26)							Merger	24,710	24,423	833			
Cost							Expired stock options	37,503	37,068	1,266			
Land	7,462,281	7,462,489	254,575				Retained earnings						
Buildings and structures	3,645,745	9,458,893	322,680				Legal reserve	10,273,674	16,471,254	561,900			
Machinery and equipment	6,449,665	8,170,236	278,719				Special reserve	580,856	-	-			
Molding equipment	172,632	-	-				Accumulated earnings	73,033,196	52,668,072	1,796,716			
Computer equipment	362,979	424,361	14,477				Other equity						
Transportation equipment	6,570	6,570	224				Cumulative translation adjustments (Note 2)	312,933	(1,008,358)	(34,399)			
Furniture and fixtures	198,346	239,291	8,163				Net losses not recognized as pension cost	(121)	(293)	(10)			
Leased assets	4,712	4,712	161				Unrealized gain (loss) on financial instruments (Notes 2, 8 and 25)	1,733	(66,368)	(2,264)			
Leasehold improvements	206,579	213,506	7,284				Treasury stock (Notes 2 and 21)	(18,824,770)	(14,065,490)	(479,830)			
Less: Accumulated depreciation	(5,588,332)	(6,596,836)	(225,044)				Total stockholders' equity	90,812,832	79,138,932	2,699,744			
Prepayments for construction-in-progress and equipment-in-transit	1,740,308	290,939	9,925										
Properties, net	14,661,485	19,674,161	671,164										
INTANGIBLE ASSETS													
Patents (Note 2)	2,135,822	1,749,242	59,674										
OTHER ASSETS													
Refundable deposits	77,625	85,009	2,900										
Deferred charges (Note 2)	9,421	98,124	3,347										
Deferred income tax assets (Notes 2 and 23)	4,046,725	4,223,861	144,093										
Restricted assets - noncurrent (Note 27)	63,900	-	-										
Others (Notes 2, 12 and 19)	6,276,125	8,449,690	288,253										
Total other assets	10,473,796	12,856,684	438,593										
TOTAL	\$ 251,808,539	\$ 194,063,052	\$ 6,620,262				TOTAL	\$ 251,808,539	\$ 194,063,052	\$ 6,620,262			

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

HTC CORPORATION

STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 26)			
Sales	\$ 357,370,359	\$ 215,839,636	\$ 7,363,148
Sales returns	<u>(1,705,051)</u>	<u>(1,976,072)</u>	<u>(67,412)</u>
Net sales	355,665,308	213,863,564	7,295,736
Other operating revenues	<u>588,075</u>	<u>1,312,116</u>	<u>44,762</u>
Total revenues	356,253,383	215,175,680	7,340,498
COST OF REVENUES (Notes 11, 22 and 26)	<u>260,612,238</u>	<u>168,321,388</u>	<u>5,742,112</u>
GROSS PROFIT	95,641,145	46,854,292	1,598,386
UNREALIZED INTERCOMPANY GAINS	(1,003,790)	(1,236,112)	(42,169)
REALIZED INTERCOMPANY GAINS	<u>345,455</u>	<u>1,151,531</u>	<u>39,284</u>
REALIZED GROSS PROFIT	<u>94,982,810</u>	<u>46,769,711</u>	<u>1,595,501</u>
OPERATING EXPENSES (Notes 22 and 26)			
Selling and marketing	23,536,107	16,836,550	574,362
General and administrative	4,227,422	4,437,396	151,377
Research and development	<u>14,008,342</u>	<u>10,843,055</u>	<u>369,900</u>
Total operating expenses	<u>41,771,871</u>	<u>32,117,001</u>	<u>1,095,639</u>
OPERATING INCOME	<u>53,210,939</u>	<u>14,652,710</u>	<u>499,862</u>
NONOPERATING INCOME AND GAINS			
Interest income (Note 26)	456,316	369,985	12,622
Gains on equity-method investments (Notes 2 and 15)	2,119,825	335,129	11,433
Gains on sale of investments, net	29	7,695	263
Exchange gains (Note 2)	1,304,025	778,812	26,568
Valuation gain on financial assets, net (Notes 2 and 6)	220,609	-	-
Others	<u>173,285</u>	<u>333,667</u>	<u>11,382</u>
Total nonoperating income and gains	<u>4,274,089</u>	<u>1,825,288</u>	<u>62,268</u>

(Continued)

HTC CORPORATION

STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
NONOPERATING EXPENSES AND LOSSES			
Interest expenses	\$ 10,039	\$ 320	\$ 10
Valuation loss on financial instruments, net (Notes 2, 6 and 8)	-	131,325	4,480
Others	<u>9,025</u>	<u>79,647</u>	<u>2,718</u>
Total nonoperating expenses and losses	<u>19,064</u>	<u>211,292</u>	<u>7,208</u>
INCOME BEFORE INCOME TAX	57,465,964	16,266,706	554,922
INCOME TAX (Notes 2 and 23)	<u>(6,433,781)</u>	<u>(495,140)</u>	<u>(16,891)</u>
NET INCOME	<u>\$ 51,032,183</u>	<u>\$ 15,771,566</u>	<u>\$ 538,031</u>

	<u>2011</u>		<u>2012</u>			
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>		<u>After Income Tax</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 24)	<u>\$ 67.79</u>	<u>\$ 60.20</u>	<u>\$ 19.55</u>	<u>\$ 0.67</u>	<u>\$ 18.95</u>	<u>\$ 0.65</u>
DILUTED EARNINGS PER SHARE (Note 24)	<u>\$ 67.01</u>	<u>\$ 59.51</u>	<u>\$ 19.45</u>	<u>\$ 0.66</u>	<u>\$ 18.86</u>	<u>\$ 0.64</u>

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

(Concluded)

HTC CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012 (In Thousands) (Reviewed, Not Audited)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 51,032,183	\$ 15,771,566	\$ 538,031
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	667,045	931,395	31,774
Amortization	265,396	394,175	13,447
Compensation cost recognized for the transfer of treasury stock to employees	1,788,270	-	-
Distribution of bonuses to employees of subsidiaries	(578,310)	-	-
Amortization of premium on financial assets	2,505	2,527	86
Prepaid pension cost	(19,623)	(16,615)	(567)
Gains on equity-method investments	(2,119,825)	(335,129)	(11,433)
Cash dividends received from equity-method investees	1,786	1,744	59
Transfer of properties to expenses	59	17,002	580
Gains on sale of investments, net	(29)	(7,695)	(263)
Unrealized gain on financial instruments	-	(6,308)	(215)
Deferred income tax assets	(2,449,830)	(859,565)	(29,323)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	229,667	394,501	13,458
Accounts receivable	(637,134)	13,272,157	452,766
Accounts receivable from related parties	(16,498,768)	8,376,294	285,749
Other current financial assets	(1,135,035)	472,310	16,112
Other receivables-related parties	4,347	21,050	718
Inventories	(5,842,436)	6,570,871	224,159
Prepayments	(2,666,101)	(637,743)	(21,756)
Other current assets	(346,115)	192,966	6,583
Other assets - other	(3,580,361)	(530,336)	(18,092)
Notes and accounts payable	21,934,002	(8,203,428)	(279,852)
Notes and accounts payable to related parties	2,165,622	330,649	11,280
Income tax payable	2,533,210	(8,207,952)	(280,006)
Accrued expenses	22,499,705	(10,179,682)	(347,269)
Other current liabilities	5,509,838	(3,781,853)	(129,014)
Net cash provided by operating activities	<u>72,760,068</u>	<u>13,982,901</u>	<u>477,012</u>

(Continued)

HTC CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012 (In Thousands) (Reviewed, Not Audited)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	\$ (490,000)	\$ -	\$ -
Proceeds from disposal of available-for-sale financial assets	200,029	739,095	25,214
Increase in investments accounted for by the equity method	(3,879,644)	(5,236,770)	(178,647)
Purchase of properties	(4,302,231)	(4,382,626)	(149,509)
Decrease (increase) in refundable deposits	1,572	(6,115)	(209)
Loan to related parties	-	(6,619,951)	(225,833)
Increase in restricted assets	-	(3,581,920)	(122,193)
Acquisition of intangible assets	<u>(2,174,400)</u>	<u>-</u>	<u>-</u>
Net cash used in investing activities	<u>(10,644,674)</u>	<u>(19,088,287)</u>	<u>(651,177)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in guarantee deposits received	-	(30)	(1)
Cash dividends	(29,891,089)	(33,249,085)	(1,134,258)
Purchase of treasury stock	(16,086,098)	(3,700,346)	(126,234)
Transfer treasury stock to employees	<u>4,113,821</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(41,863,366)</u>	<u>(36,949,461)</u>	<u>(1,260,493)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,252,028	(42,054,847)	(1,434,658)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>66,282,076</u>	<u>78,872,320</u>	<u>2,690,648</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 86,534,104</u>	<u>\$ 36,817,473</u>	<u>\$ 1,255,990</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest (net of amounts capitalized)	<u>\$ 10,039</u>	<u>\$ 320</u>	<u>\$ 10</u>
Income tax	<u>\$ 6,350,401</u>	<u>\$ 9,562,657</u>	<u>\$ 326,220</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of retained earnings to common stock	<u>\$ 403,934</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of assets leased to others to properties	<u>\$ 50,828</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of accrued stock bonus to employees to common stock and additional paid-in capital	<u>\$ 4,245,851</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

HTC CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012 (In Thousands) (Reviewed, Not Audited)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
INCREASE IN LONG-TERM INVESTMENTS			
Increase in investments accounted for by the equity method	\$ 3,884,907	\$ 5,236,770	\$ 178,647
Increase in payable for purchase of investments	<u>(5,263)</u>	<u>-</u>	<u>-</u>
Cash paid for increase in long-term investments	<u>\$ 3,879,644</u>	<u>\$ 5,236,770</u>	<u>\$ 178,647</u>
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 4,336,531	\$ 5,418,849	\$ 184,859
Increase in payable for purchase of equipment	<u>(34,300)</u>	<u>(1,036,223)</u>	<u>(35,350)</u>
Cash paid for purchase of properties	<u>\$ 4,302,231</u>	<u>\$ 4,382,626</u>	<u>\$ 149,509</u>

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

(Concluded)

HTC CORPORATION

NOTES TO FINANCIAL STATEMENTS NINE MONTHS ENDED SEPTEMBER 30, 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, assemble, process, sell smart handheld devices and provide after-sales service. In March 2002, the Company’s stock was listed on the Taiwan Stock Exchange. On November 19, 2003, the Company listed some of its shares of stock on the Luxembourg Stock Exchange in the form of Global Depositary Receipts.

The Company had 14,150 and 13,736 employees as of September 30, 2011 and 2012, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

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

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

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

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

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

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

Accounting Estimates

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

Current/Noncurrent Assets and Liabilities

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

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

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

Available-for-sale Financial Assets

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

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

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

- Significant financial difficulty of the debtor;
- Accounts receivable becoming overdue; or

- It becoming probable that the debtor will enter bankruptcy or financial re-organization.

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

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

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

Inventories

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

Held-to-maturity Financial Assets

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

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

Hedge Accounting

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

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

a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

Financial Assets Carried at Cost

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

Investments Accounted for by the Equity Method

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

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

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

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

Properties

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

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

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

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

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

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

Intangible Assets

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

Deferred Charges

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

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

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

Accrued Marketing Expenses

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

Warranty Provisions

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

Provisions for Contingent Loss on Purchase Orders

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

Product-related Costs

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

Pension Plan

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

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

Income Tax

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

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

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

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

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

Stock-based Compensation

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

Treasury Stock

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

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

Reclassifications

Certain 2011 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the nine months ended September 30, 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\$29.3135 to US\$1.00 quoted by Reuters on September 30, 2012. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. ACCOUNTING CHANGES

Financial Instruments

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

Operating Segments

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

5. CASH AND CASH EQUIVALENTS

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 1,000	\$ 995	\$ 34
Checking accounts	2,856	2,922	100
Demand deposits	29,641,480	26,520,529	904,720
Time deposits	<u>56,888,768</u>	<u>10,293,027</u>	<u>351,136</u>
	<u>\$ 86,534,104</u>	<u>\$ 36,817,473</u>	<u>\$ 1,255,990</u>

On time deposits, interest rates ranged from 0.15% to 1.345% and 0.15% to 1.09% as of September 30, 2011 and 2012, respectively.

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

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial assets			
Exchange contracts	<u>\$ 220,609</u>	<u>\$ -</u>	<u>\$ -</u>
Derivatives - financial liabilities			
Exchange contracts	<u>\$ -</u>	<u>\$ 137,633</u>	<u>\$ 4,695</u>

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

Forward Exchange Contracts

	2011			
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2011.10.05-2011.12.21	EUR 271,000
Forward exchange contracts	Sell	GBP/USD	2011.10.05-2011.10.26	GBP 22,710
Forward exchange contracts	Buy	USD/CAD	2011.10.05-2011.11.30	USD 5,259

		2012		
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2012.10.03-2012.11.30	EUR 135,000
Forward exchange contracts	Sell	GBP/USD	2012.10.03-2012.11.30	GBP 25,300
Forward exchange contracts	Sell	USD/NTD	2012.10.04-2012.10.30	USD 75,000
Forward exchange contracts	Buy	USD/RMB	2012.10.17-2012.11.14	USD 185,000
Forward exchange contracts	Buy	USD/JPY	2012.10.24	USD 31,998
Forward exchange contracts	Buy	USD/CAD	2012.10.17-2012.11.28	USD 10,832
Forward exchange contracts	Buy	USD/NTD	2012.10.15-2012.10.31	USD 35,000

Net loss on derivative financial instruments for the nine months ended September 30, 2011 was NT\$366,529 thousand, including realized settlement loss of NT\$587,138 thousand and valuation gain of NT\$220,609 thousand, and were classified as exchange loss and valuation gain on financial instruments, respectively.

Net gain on derivative financial instruments for the nine months ended September 30, 2012 was NT\$483,705 thousand (US\$16,501 thousand), including realized settlement gain of NT\$621,338 thousand (US\$21,196 thousand) and valuation loss of NT\$137,633 thousand (US\$4,695 thousand), and were classified as exchange gain and valuation loss on financial instruments, respectively. Note 25 has more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ 734,698	\$ -	\$ -
Domestic quoted stocks	406	183	6
Less: Current portion	<u>(734,698)</u>	<u>-</u>	<u>-</u>
	<u>\$ 406</u>	<u>\$ 183</u>	<u>\$ 6</u>

8. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Hedging derivative liabilities	<u>\$ -</u>	<u>\$ 82,213</u>	<u>\$ 2,805</u>

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

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

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Balance, beginning of period	\$ -	\$ -	\$ -
Add: Recognized in profit and loss	-	6,308	215
Less: Unrealized valuation loss	<u>-</u>	<u>(88,521)</u>	<u>(3,020)</u>
Balance, end of period	<u>\$ -</u>	<u>\$ (82,213)</u>	<u>\$ (2,805)</u>

The unrealized valuation loss due to forward exchange contract was recognized as unrealized loss on financial instruments in stockholders' equity.

9. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2011 and 2012 were as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Accounts receivable	\$ 37,370,180	\$ 20,826,705	\$ 710,482
Less: Allowance for doubtful accounts	<u>(1,554,008)</u>	<u>(2,059,086)</u>	<u>(70,244)</u>
	<u>\$ 35,816,172</u>	<u>\$ 18,767,619</u>	<u>\$ 640,238</u>

10. OTHER CURRENT FINANCIAL ASSETS

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 1,479,631	\$ 785,791	\$ 26,806
Interest receivable	23,399	9,320	318
Agency payments	<u>313,456</u>	<u>37,429</u>	<u>1,277</u>
	<u>\$ 1,816,486</u>	<u>\$ 832,540</u>	<u>\$ 28,401</u>

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

11. INVENTORIES

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 653,027	\$ 1,115,929	\$ 38,069
Work-in-process	5,153,451	2,704,259	92,253
Semi-finished goods	2,940,573	2,980,927	101,691
Raw materials	18,854,710	11,901,116	405,994
Goods in transit	<u>161,167</u>	<u>116,218</u>	<u>3,965</u>
	<u>\$ 27,762,928</u>	<u>\$ 18,818,449</u>	<u>\$ 641,972</u>

As of September 30, 2011 and 2012, the allowance for inventory devaluation were NT\$4,362,834 thousand and NT\$3,516,221 thousand (US\$119,952 thousand), respectively.

The write-down of inventories to their net realizable value amounting to NT\$2,253,460 thousand and NT\$619,032 thousand (US\$21,118 thousand) were recognized as cost of sales for the nine months ended September 30, 2011 and 2012, respectively.

12. PREPAYMENTS

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 5,093,400	\$ 3,457,643	\$ 117,954
Prepayments to suppliers	293,388	852,920	29,096
Software and hardware maintenance	233,137	669,305	22,833
Services	332,341	93,024	3,174
Molding equipment	12,216	67,261	2,295
Others	<u>129,855</u>	<u>38,353</u>	<u>1,308</u>
	<u>\$ 6,204,337</u>	<u>\$ 5,178,506</u>	<u>\$ 176,660</u>

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent in accordance with their nature. As of September 30, 2011 and 2012, noncurrent prepayments of NT\$3,099,196 thousand and NT\$5,971,567 thousand (US\$203,714 thousand), respectively, had been classified as other assets (Note 28 has more information).

Prepayments to suppliers were primarily for discount purposes and were classified as current or noncurrent in accordance with their nature. As of September 30, 2011 and 2012, noncurrent prepayments of NT\$2,998,360 thousand and NT\$2,244,640 thousand (US\$76,574 thousand), respectively, had been classified as other assets.

Others were primarily prepaid for rent, travel and insurance expenses.

13. HELD-TO-MATURITY FINANCIAL ASSETS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Corporate bonds	<u>\$ 205,441</u>	<u>\$ 202,070</u>	<u>\$ 6,893</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%.

14. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of September 30, 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	\$ 17,057
BandRich Inc.	15,861	15,861	541
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>41</u>
	517,053	517,053	17,639
Less: Accumulated impairment loss	<u>(1,192)</u>	<u>(1,192)</u>	<u>(41)</u>
	<u>\$ 515,861</u>	<u>\$ 515,861</u>	<u>\$ 17,598</u>

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

On March 1, 2004, the Company merged with IA Style, Inc. and acquired 1.82% equity interest in Answer Online, Inc. with NT\$1,192 thousand as a result of the merger. In 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. 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.

15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

	2011		2012		Ownership Percentage
	Carrying Value	Ownership Percentage	Carrying Value		
	NT\$		NT\$	US\$ (Note 3)	
Unquoted equity investments					
H.T.C. (B.V.I.) Corp.	\$ 2,689,786	100.00	\$ 2,859,232	\$ 97,540	100.00
Communication Global Certification Inc.	464,454	100.00	557,061	19,004	100.00
High Tech Computer Asia Pacific Pte. Ltd.	13,112,454	100.00	28,198,782	961,973	100.00
HTC Investment Corporation	300,946	100.00	303,624	10,358	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	1.00
HTC I Investment Corporation	295,649	100.00	299,881	10,230	100.00
HTC Holding Cooperatief U.A.	13	1.00	13	-	1.00
Huada Digital Corporation	245,747	100.00	245,214	8,365	50.00
HTC Investment One (BVI) Corporation	-	-	9,101,743	310,497	100.00
Prepayments for long-term investments	349,002		45,040	1,536	
	<u>\$ 17,458,113</u>		<u>\$ 41,610,652</u>	<u>\$ 1,419,505</u>	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp., of which main business activity were international holding investment, and accounted for this investment by the equity method. In 2011, the Company made a new investment of US\$57,800 thousand in H.T.C. (B.V.I.) Corp. The Company made a new investment of US\$39,093 thousand in H.T.C. (B.V.I.) Corp in 2012. As of September 30, 2012, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to US\$122,145 thousand.

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc., of which main business activities were telecom testing and certification services, and accounted for this investment by the equity method.

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. ("High Tech Asia"), of which main business activities were international holding investment, marketing, repair and after-sales services, and accounted for this investment by the equity method. In 2011, the Company increased this investment by US\$393,316 thousand. The Company increased this investment by US\$115,000 thousand in 2012. As of September 30, 2012, the Company's investment in High Tech Asia had amounted to US\$714,534 thousand.

In July 2008, the Company acquired 100% equity interest in HTC Investment Corporation, of which the main business activity was general investing, for NT\$300,000 thousand and accounted for this investment by the equity method.

In December 2007, the Company and its subsidiary, High Tech Computer Asia Pacific Pte. Ltd., acquired equity interests of 1% and 99%, respectively, in PT. High Tech Computer Indonesia, of which main business activities were marketing, repair and after-sales services, for US\$2 thousand and US\$186 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, of which the main business activity was general investing, for NT\$295,000 thousand and has 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, of which main business activity were international holding investment, for EUR0.28 thousand and EUR27.72 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”), of which main business activities were software services, for NT\$245,000 thousand and accounted for this investment by the equity method. In September 2011, the Company increased this investment by NT\$5,000 thousand. As of September 30, 2012, the Company’s investment in Huada had amounted to NT\$250,000 thousand (US\$8,528 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 2011, the Company made a new investment of US\$320,002 thousand in HTC Investment One (BVI) Corporation, of which main business activities were an acquisition of 100% equity interests in S3 Graphics Co., Ltd. and general investing, and accounted for this investment by the equity method. The Company increased this investment by US\$20,644 thousand in 2012. As of September 30, 2012, the Company’s investment in HTC Investment One (BVI) Corporation had amounted to US\$340,646 thousand.

In February 2012, the Company acquired 100% equity interest in FunStream Corporation, of which the main business activity were design, research and development of three-D technology, for NT\$45,090 thousand (US\$1,538 thousand) and accounted for this investment by the equity method. Because the changes to registration of this investment had not been completed as of September 30, 2012, the amount was temporarily accounted for under “prepayments for long-term investments.”

For the nine months ended September 30, 2011 and 2012, gains (losses) on equity-method investments were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
H.T.C. (B.V.I.) Corp.	\$ 11,573	\$ (1,134,038)	\$ (38,686)
Communication Global Certification Inc.	47,378	93,157	3,178
High Tech Computer Asia Pacific Pte. Ltd.	2,058,875	2,195,872	74,910
HTC Investment Corporation	735	3,301	113
HTC I Investment Corporation	565	4,715	161
Huada Digital Corporation	690	(5,475)	(187)
HTC Investment One (BVI) Corporation	9	(822,353)	(28,054)
FunStream Corporation	-	(50)	(2)
	<u>\$ 2,119,825</u>	<u>\$ 335,129</u>	<u>\$ 11,433</u>

The financial statements of equity-method investees had been reviewed by the Company’s independent accountants.

Under orders VI-0960034217 and VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the nine months ended September 30, 2011 and 2012. All significant intercompany balances and transactions have been eliminated.

16. PROPERTIES

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

	2011		2012		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Land	\$ 7,462,281	\$ 7,462,489	\$ -	\$ 7,462,489	\$ 254,575
Buildings and structures	2,745,272	9,458,893	1,105,639	8,353,254	284,963
Machinery and equipment	2,438,617	8,170,236	4,903,850	3,266,386	111,430
Computer equipment	73,510	424,361	332,251	92,110	3,142
Transportation equipment	4,012	6,570	3,465	3,105	106
Furniture and fixtures	68,236	239,291	153,105	86,186	2,940
Leased assets	196	4,712	4,712	-	-
Leasehold improvements	129,053	213,506	93,814	119,692	4,083
Prepayments for construction-in-progress and equipment-in-transit	<u>1,740,308</u>	<u>290,939</u>	<u>-</u>	<u>290,939</u>	<u>9,925</u>
	<u>\$ 14,661,485</u>	<u>\$ 26,270,997</u>	<u>\$ 6,596,836</u>	<u>\$ 19,674,161</u>	<u>\$ 671,164</u>

In April 2011, the Company bought land with areas of approximately 49 thousand square meters adjacent to its Taoyuan plant for NT\$1,770,000 thousand, which was based on the appraisal report, from an unrelated party to build up a complete HTC technology park and meet the future capacity expansion requirements. The construction of a new office building and factory were completed in June 2012, and a construction amount of NT\$5,615,958 thousand (US\$191,583 thousand) was transferred from prepayments for construction in progress to buildings and structures.

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

17. ACCRUED EXPENSES

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 30,082,647	\$ 15,887,068	\$ 541,971
Bonus to employees	6,218,734	5,699,212	194,423
Salaries and bonuses	6,376,083	3,612,949	123,252
Services	2,871,097	3,215,998	109,710
Research materials and molding expenses	1,701,307	1,796,065	61,271
Repairs, maintenance and sundry purchase	255,953	530,218	18,088
Import, export and freight	1,246,064	414,408	14,137
Insurance	180,522	176,774	6,030
Meals and welfare	159,858	133,071	4,540
Pension cost	106,513	109,046	3,720
Donation	480,800	-	-
Others	<u>237,905</u>	<u>391,104</u>	<u>13,342</u>
	<u>\$ 49,917,483</u>	<u>\$ 31,965,913</u>	<u>\$ 1,090,484</u>

The employee bonus for nine months ended September 30, 2011 and 2012 should be appropriated at 10% and 5%, respectively, of net income before deducting employee bonus expenses. Accrued bonus as of September 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Accrued bonus to employees for current year	\$ 6,088,456	\$ 954,640	\$ 32,567
Cash bonuses approved by the stockholders for prior years	<u>130,278</u>	<u>4,744,572</u>	<u>161,856</u>
	<u>\$ 6,218,734</u>	<u>\$ 5,699,212</u>	<u>\$ 194,423</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. In June 2012, the Company handed over the foregoing donated building to the HTC Cultural and Educational Foundation. The actual construction cost was NT\$218,636 thousand (US\$7,459 thousand). The difference between the estimated construction cost and the actual construction cost was NT\$836 thousand (US\$29 thousand) and was recognized as an adjustment on the donation to the HTC Cultural and Educational Foundation in 2012.

Services fees accrued were mainly marketing activities, research and design and business consulting services provided by related parties. These fees were calculated based on contract duration.

18. OTHER CURRENT LIABILITIES

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Warranty provisions	\$ 13,115,711	\$ 10,106,052	\$ 344,758
Deferred credits - gain from intercompany transactions	1,003,790	1,236,112	42,169
Provisions for contingent loss on purchase orders	3,115,779	1,015,948	34,658
Agency receipts	225,116	390,823	13,332
Other payables	497,675	379,441	12,944
Advance receipts	143,159	67,793	2,313
Others	<u>524,561</u>	<u>844,979</u>	<u>28,825</u>
	<u>\$ 18,625,791</u>	<u>\$ 14,041,148</u>	<u>\$ 478,999</u>

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

Other payables were payables for patents, miscellaneous expenses on behalf of overseas sales offices and repair materials.

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 downstream 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.

19. PENSION PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$246,688 thousand and NT\$311,874 thousand (US\$10,639 thousand) for the nine months ended September 30, 2011 and 2012, respectively.

Based on the defined benefit plan under the Labor Standards Law (the "LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name. The Company recognized pension costs of NT\$3,093 thousand and NT\$2,993 thousand (US\$102 thousand) for the nine months ended September 30, 2011 and 2012, respectively.

20. 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 September 30, 2012 increased to NT\$8,520,521 thousand (US\$290,669 thousand), divided into 852,052 thousand common shares at NT\$10.00 (US\$0.34) par value.

Global Depositary Receipts

In November 2003, 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. Taking into account the effect of stock dividends, the GDRs increased to 9,015.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of September 30, 2012, there were 6,766.1 thousand units of GDRs redeemed, representing 27,064.5 thousand common shares, and the outstanding GDRs represented 8,996 thousand common shares or 1.08% 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 September 30, 2012 was NT\$14,809,608 thousand (US\$505,215 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 September 30, 2012 were NT\$1,730,458 thousand (US\$59,033 thousand) and NT\$37,068 thousand (US\$1,266 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 September 30, 2012 was NT\$18,037 thousand (US\$615 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 September 30, 2012 was NT\$24,423 thousand (US\$833 thousand).

Appropriation of Retained Earnings and Dividend Policy

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

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

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

	For Year 2010		For Year 2011			
	Appropriation of Earnings	Dividends Per Share	Appropriation of Earnings		Dividends Per Share	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Legal reserve	\$ -	\$ -	\$ 6,197,580	\$ 211,424	\$ -	\$ -
Special reserve	580,856	-	(580,856)	(19,815)	-	-
Cash dividends	29,891,089	37.00	33,249,085	1,134,258	40.00	1.36
Stock dividends	403,934	0.50	-	-	-	-

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

		Amounts Approved in Shareholders' Meetings	Amounts Recognized in Respective Financial Statements
		<u>NT\$</u>	<u>NT\$</u>
For Year 2010	Cash	\$ 4,245,853	
	Stock	<u>4,245,851</u>	
		<u>\$ 8,491,704</u>	<u>\$ 8,491,704</u>
For year 2011	Cash	\$ 7,238,637	
	Stock	<u>-</u>	
		<u>\$ 7,238,637</u>	<u>\$ 7,238,637</u>
		Amounts Approved in Shareholders' Meetings	Amounts Recognized in Respective Financial Statements
		<u>US\$ (Note 3)</u>	<u>US\$ (Note 3)</u>
For year 2011	Cash	\$ 246,939	
	Stock	<u>-</u>	
		<u>\$ 246,939</u>	<u>\$ 246,939</u>

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

The employee bonus for nine months ended September 30, 2011 and 2012 should be appropriated at 10% and 5%, respectively, of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

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

21. 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 and completed capital amendment registration in January 2012.

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\$127,929 thousand) during the repurchase period. Other treasury stock information for the nine months ended 30, 2011 and 2012 were as follows:

(In Thousands of Shares)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
<u>Nine months ended September 30, 2011</u>				
To maintain the Company's credibility and shareholders' interest	-	10,000	-	10,000
For transferring shares to the Company's employees	<u>9,786</u>	<u>10,000</u>	<u>5,875</u>	<u>13,911</u>
	<u>9,786</u>	<u>20,000</u>	<u>5,875</u>	<u>23,911</u>
<u>Nine months ended September 30, 2012</u>				
For transferring shares to the Company's employees	<u>14,011</u>	<u>6,814</u>	-	<u>20,825</u>

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

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

Function Expense Item	2011			2012					
	NT\$			NT\$			US\$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	\$4,749,671	\$12,545,043	\$17,294,714	\$ 3,891,155	\$ 6,222,685	\$10,113,840	\$ 132,743	\$ 212,280	\$ 345,023
Salary	4,012,393	11,902,360	15,914,753	3,040,646	5,476,369	8,517,015	103,728	186,821	290,549
Insurance	259,107	216,907	476,014	330,434	288,370	618,804	11,273	9,837	21,110
Pension cost	110,706	139,075	249,781	129,441	185,426	314,867	4,416	6,325	10,741
Other	367,465	286,701	654,166	390,634	272,520	663,154	13,326	9,297	22,623
Depreciation	362,962	304,083	667,045	495,853	435,542	931,395	16,916	14,858	31,774
Amortization	262,288	3,108	265,396	4,108	390,067	394,175	140	13,307	13,447

23. INCOME TAX

Income taxes payable for the nine months ended September 30, 2011 and 2012 were computed as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Income before income tax	\$ 57,465,964	\$ 16,266,706	\$ 554,922
Less: Unrealized royalties	10,626,755	1,333,214	45,481
Unrealized (realized) marketing expense	14,339,794	(9,669,888)	(329,878)
Unrealized (realized) warranty expense	4,058,661	(2,649,212)	(90,375)
Unrealized exchange gains	(495,541)	(788,885)	(26,912)
Gains on equity-method investment	(2,119,825)	(335,129)	(11,433)
Unrealized (realized) contingent losses of purchase orders	1,173,632	(1,036,932)	(35,374)
Realized valuation gain on financial instruments	229,667	388,194	13,243
Unrealized bad debt expenses	368,711	716,512	24,443
Unrealized (realized) loss on decline in value of inventory	926,136	(1,114,974)	(38,036)
Realized pension cost	(19,623)	(16,615)	(567)
Unrealized profit from intercompany transactions	658,335	84,581	2,886
Unrealized research materials and molding expenses	382,131	26,036	888
Unrealized sales allowance	793,634	89,325	3,047
Others	(91,929)	105,412	3,596
Total income	88,296,502	3,398,345	115,931
Less: Tax-exempt income	(73,521,012)	(2,069,667)	(70,605)
Taxable income	14,775,490	1,328,678	45,326
Tax rate	× 17%	× 17%	× 17%
Income tax payable determined pursuant to the Income Tax Law	<u>\$ 2,511,833</u>	<u>\$ 225,875</u>	<u>\$ 7,705</u>
Alternative minimum tax	\$ 8,829,453	\$ 340,404	\$ 11,612
Add: Unappropriated earnings (additional 10% income tax)	865,772	2,310,999	78,838
Less: Investment research and development tax credits	(865,772)	(1,296,698)	(44,236)
Less: Prepaid and withheld income tax	(44,641)	(35,789)	(1,220)
Add: Prior years' income tax payable	<u>165,065</u>	<u>126,222</u>	<u>4,306</u>
Income tax payable	<u>\$ 8,949,877</u>	<u>\$ 1,445,138</u>	<u>\$ 49,300</u>

As of September 30, 2011 and 2012, the amount of regular income tax is less than the amount of basic tax, the income tax payable shall include the difference between the amount of regular income tax and basic tax, in accordance with "Income Basic Tax Act". As a result, the current income tax payable as of September 30, 2011 and 2012 should be NT\$8,829,453 thousand and NT\$340,404 thousand (US\$11,612 thousand), respectively.

In August 2012, the Legislative Yuan passed the amendment of Article 8 of the “Income Basic Tax Act”, which increased alternative minimum tax rate from 10% to 12%, effective January 1, 2013. The Company has reassessed deferred tax assets in accordance with the revised article. Deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of September 30, 2011 and 2012 were as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	\$ 741,682	\$ 597,758	\$ 20,392
Unrealized royalties	4,566,970	5,044,391	172,084
Unrealized marketing expenses	5,114,050	2,700,802	92,135
Unrealized warranty expenses	2,229,671	1,718,029	58,609
Capitalize expense	66,346	63,753	2,175
Unrealized bad-debt expenses	63,783	275,162	9,387
Unrealized contingent losses of purchase orders	529,682	172,711	5,892
Unrealized valuation loss on financial instruments	-	22,325	761
Unrealized research materials and molding expenses	125,927	142,928	4,876
Unrealized sales allowance	176,797	87,059	2,970
Unrealized exchange loss	-	68,450	2,335
Other	207,898	188,168	6,419
Tax credit carryforwards	<u>3,141,446</u>	<u>1,666,707</u>	<u>56,858</u>
Total deferred income tax assets	16,964,252	12,748,243	434,893
Less: Valuation allowance	<u>(11,039,287)</u>	<u>(6,628,231)</u>	<u>(226,115)</u>
Total deferred income tax assets, net	5,924,965	6,120,012	208,778
Deferred income tax liabilities			
Unrealized pension cost	(30,357)	(34,074)	(1,162)
Unrealized exchange gain, net	(32,017)	-	-
Unrealized valuation gain on financial instruments	(37,504)	-	-
Others	<u>(30,247)</u>	<u>(112,551)</u>	<u>(3,840)</u>
	5,794,840	5,973,387	203,776
Less: Current portion	<u>(1,748,115)</u>	<u>(1,749,526)</u>	<u>(59,683)</u>
Deferred income tax assets, noncurrent	<u>\$ 4,046,725</u>	<u>\$ 4,223,861</u>	<u>\$ 144,093</u>

The income tax expenses for the nine months ended September 30, 2011 and 2012 were as follows:

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 8,829,453	\$ 1,354,705	\$ 46,214
Less: Effect of tax law changes	-	(1,300,426)	(44,363)
(Less) add: (Increase) decrease in deferred income tax assets	(2,449,830)	440,861	15,040
Add: Underestimation of prior years' income tax	<u>54,158</u>	<u>-</u>	<u>-</u>
Income tax	<u>\$ 6,433,781</u>	<u>\$ 495,140</u>	<u>\$ 16,891</u>

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

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

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

<u>Laws and Statutes</u>	<u>Tax Credit Source</u>	<u>Total Creditable Amount</u>		<u>Remaining Creditable Amount</u>		<u>Expiry Year</u>
		<u>NT\$</u>	<u>US\$ (Note 3)</u>	<u>NT\$</u>	<u>US\$ (Note 3)</u>	
Statute for Upgrading Industries	Research and development expenditures	<u>\$ 2,375,184</u>	<u>\$ 81,027</u>	<u>\$ 1,666,707</u>	<u>\$ 56,858</u>	2013

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

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

	<u>2011</u>	<u>2012</u>	
	<u>NT\$</u>	<u>NT\$</u>	<u>US\$ (Note 3)</u>
Balance of ICA	\$ 3,943,715	\$ 5,958,011	\$ 203,251
Unappropriated earnings from 1998	73,033,196	52,668,072	1,796,716
Estimated creditable ratio (including income tax payable)	17.43%	13.82%	13.82%

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

The Company's income tax returns through 2009 had been examined by the tax authorities.

24. EARNINGS PER SHARE

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

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

	2011				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
	Basic EPS	\$ 57,465,964	\$ 51,032,183	847,739	<u>\$ 67.79</u>
Bonus to employees	<u>-</u>	<u>-</u>	<u>9,868</u>		
Diluted EPS	<u>\$ 57,465,964</u>	<u>\$ 51,032,183</u>	<u>857,607</u>	<u>\$ 67.01</u>	<u>\$ 59.51</u>
	2012				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 16,266,706	\$ 15,771,566	832,233	<u>\$ 19.55</u>	<u>\$ 18.95</u>
Bonus to employees	<u>-</u>	<u>-</u>	<u>3,912</u>		
Diluted EPS	<u>\$ 16,266,706</u>	<u>\$ 15,771,566</u>	<u>836,145</u>	<u>\$ 19.45</u>	<u>\$ 18.86</u>
	2012				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
Basic EPS	\$ 554,922	\$ 538,031	832,233	<u>\$ 0.67</u>	<u>\$ 0.65</u>
Bonus to employees	<u>-</u>	<u>-</u>	<u>3,912</u>		
Diluted EPS	<u>\$ 554,922</u>	<u>\$ 538,031</u>	<u>836,145</u>	<u>\$ 0.66</u>	<u>\$ 0.64</u>

25. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Non-derivative financial instruments

	September 30					
	2011		2012			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Available-for-sale financial assets - current	\$ 734,698	\$ 734,698	\$ -	\$ -	\$ -	\$ -
Available-for-sale financial assets - noncurrent	406	406	183	6	183	6
Held-to-maturity financial assets - noncurrent	205,441	204,728	202,070	6,893	202,040	6,892
Financial assets carried at cost - noncurrent	515,861	515,861	515,861	17,598	515,861	17,598

b. Derivative financial instruments

	September 30					
	2011		2012			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Financial assets at fair value through profit or loss - current	\$ 220,609	\$ 220,609	\$ -	\$ -	\$ -	\$ -
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	-	137,633	4,695	137,633	4,695
Hedging derivative liabilities - current	-	-	82,213	2,805	82,213	2,805

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

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

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

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

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

Fair Values of Financial Instruments Based on Quoted Market Prices or Valuation Methods

	Fair Values Based on Quoted Market Prices			Fair Values Based on Valuation Methods		
	September 30			September 30		
	2011	2012		2011	2012	
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
Assets						
Financial assets at fair value						
through profit or loss - current	\$ -	\$ -	\$ -	\$ 220,609	\$ -	\$ -
Available-for-sale financial						
assets - current	734,698	-	-	-	-	-
Available-for-sale financial						
assets - noncurrent	406	183	6	-	-	-
Held-to-maturity financial assets						
- noncurrent	204,728	202,040	6,892	-	-	-
Financial assets carried at cost -						
noncurrent	-	-	-	515,861	515,861	17,598
Liabilities						
Financial liabilities at fair value						
through profit or loss - current	-	-	-	-	137,633	4,695
Hedging derivative liabilities -						
current	-	-	-	-	82,213	2,805

The Company recognized unrealized gain of NT\$2,618 thousand and unrealized loss of NT\$4,727 thousand (US\$161 thousand) for the nine months ended September 30, 2011 and 2012, respectively, under stockholders' equity for the changes in fair value of available-for-sale financial assets.

As of September 30, 2011 and 2012, financial assets exposed to fair value interest rate risk amounted to NT\$205,441 thousand and NT\$202,070 thousand (US\$6,893 thousand) respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$56,952,668 thousand and NT\$13,938,847 thousand (US\$475,509 thousand), respectively.

Financial Risks

a. Market risk

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

b. Credit risk

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

c. Liquidity risk

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

Under the regulations of the Securities and Futures Bureau, an entity shall disclose derivative financial instrument transactions the investee company entered into. The objective of our investee company for the derivative contracts is to hedge the foreign currency exchange rate fluctuation risks. However, our investee company's derivative contracts did not meet the criteria for hedge accounting and thus were 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 derivative contracts that subsidiaries entered into are briefly disclosed as follows:

Saffron Digital Ltd.

The Company acquired Saffron in January 2011. Saffron had settled the forward exchange contracts as of September 30, 2011, and the realized settlement loss on these contracts was NT\$1,074 thousand.

26. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

<u>Related Party</u>	<u>Relationship with the Company</u>
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Way-Lien Technology Co., Ltd	Significant stockholder of the Company
Faith Hope & Love Limited	Its significant stockholder in substance is the Company's chairperson
Wozai Information Technology (Beijing), LLC	Its significant stockholder in substance is the Company's chairperson
Openmoko, Inc.	Its significant stockholder in substance is the Company's chairperson
VIA Telecom Company 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.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer (H.K.) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) PTY. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Philippines Corporation	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
PT. High Tech Computer Indonesia	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Thailand) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.

(Continued)

Related Party	Relationship with the Company
HTC Innovation Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Communication Co., Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC HK, Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Holding Cooperatief U.A.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Corporation (Shanghai WGQ)	Subsidiary of HTC HK, Limited.
HTC Electronics (Shanghai) Co., Ltd.	Subsidiary of HTC HK, Limited.
HTC Netherlands B.V.	Subsidiary of HTC Holding Cooperatief U.A.
HTC EUROPE CO., LTD.	Subsidiary of HTC. Netherlands B.V.
HTC BRASIL	Subsidiary of HTC. Netherlands B.V.
HTC Belgium BVBA/SPRL	Subsidiary of HTC. Netherlands B.V.
HTC NIPPON Corporation	Subsidiary of HTC. Netherlands B.V.
HTC FRANCE CORPORATION	Subsidiary of HTC. Netherlands B.V.
HTC South Eastern Europe Limited liability Company	Subsidiary of HTC. Netherlands B.V.
HTC Nordic ApS.	Subsidiary of HTC. Netherlands B.V.
HTC Italia SRL	Subsidiary of HTC. Netherlands B.V.
HTC Germany GmbH.	Subsidiary of HTC. Netherlands B.V.
HTC Iberia S.L.	Subsidiary of HTC. Netherlands B.V.
HTC Poland sp. z o.o.	Subsidiary of HTC. Netherlands B.V.
Saffron Media Group Ltd.	Subsidiary of HTC. Netherlands B.V.
HTC America Holding Inc.	Subsidiary of HTC EUROPE CO., LTD.
ABAXIA SAS	Subsidiary of HTC France Corporation
HTC America Inc.	Subsidiary of HTC America Holding Inc.
One & Company Design Inc.	Subsidiary of HTC America Holding Inc.
HTC America Innovation Inc.	Subsidiary of HTC America Holding, Inc.
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 Russia LLC	Subsidiary of HTC. Netherlands B.V.
HTC Communication Sweden AB	Subsidiary of HTC. Netherlands B.V.
Dashwire, Inc.	Subsidiary of HTC America Holding Inc.
HTC Investment One (BVI) Corp.	Subsidiary
Inquisitive Minds, Inc.	Subsidiary of HTC America Holding Inc.
Beats Electronics, LLC	Investment received in October 2011. The Company has lost control of the subsidiary since August 2012, due to the partial disposal of its shares, and accounted for the investment by equity method.
HTC Communication Technologies (SH)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
FunStream Corporation	Subsidiary
HTC Middle East FZ-LLC	Subsidiary of HTC. Netherlands B.V.
Yoda Co., Ltd.	Subsidiary of HTC I Investment Corporation
Employees' Welfare Committee	Employees' Welfare Committee of the Company
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	Nine Months Ended September 30				% to Total Net Purchases
	2011		2012		
	Amount	% to Total Net Purchases	Amount		
	NT\$		NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 450,235	-	\$ 1,528,351	\$ 52,138	1
VIA Telecom Company Limited	-	-	4,961	169	-
Chander Electronics Corp.	<u>172,540</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 622,775</u>	<u>-</u>	<u>\$ 1,533,312</u>	<u>\$ 52,307</u>	<u>1</u>

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

Sales and Services Provided

Related Party	Nine Months Ended September 30				% to Total Revenues
	2011		2012		
	Amount	% to Total Revenues	Amount		
	NT\$		NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 171,224,834	48	\$ 41,637,347	\$ 1,420,416	19
HTC Communication Co., Ltd.	12,531,135	4	33,508,447	1,143,106	16
Faith Hope & Love Limited	-	-	2,236,688	76,302	1
HTC NIPPON Corporation	-	-	1,282,172	43,740	1
HTC Employees' Welfare Committee	52,510	-	219,853	7,500	-
Others	<u>20,309</u>	<u>-</u>	<u>105,089</u>	<u>3,585</u>	<u>-</u>
	<u>\$ 183,828,788</u>	<u>52</u>	<u>\$ 78,989,596</u>	<u>\$ 2,694,649</u>	<u>37</u>

The selling prices for products sold to related parties were similar to those sold to third parties, except for HTC America Inc., HTC Communication Co., Ltd., HTC Employees' Welfare Committee, Faith Hope & Love Limited and HTC NIPPON Corporation. 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	September 30				% to Total Accounts Receivable
	2011		2012		
	Amount	% to Total Accounts Receivable	Amount		
	NT\$		NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 40,498,910	50	\$ 16,255,266	\$ 554,532	36
HTC Communication Co., Ltd.	4,112,797	5	6,974,629	237,932	15
HTC NIPPON Corporation	-	-	1,099,646	37,513	2
Faith Hope & Love Limited	-	-	219,851	7,500	1
Others	<u>73,452</u>	<u>-</u>	<u>51,583</u>	<u>1,760</u>	<u>-</u>
	<u>\$ 44,685,159</u>	<u>55</u>	<u>\$ 24,600,975</u>	<u>\$ 839,237</u>	<u>54</u>

Accounts Payable

Related Party	September 30				% to Total Accounts Payable
	2011		2012		
	Amount NT\$	% to Total Accounts Payable	Amount NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 3,487,341	4	\$ 3,964,956	\$ 135,260	6
VIA Telecom Company Limited	-	-	4,924	168	-
Chander Electronics Corp.	<u>25,262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,512,603</u>	<u>4</u>	<u>\$ 3,969,880</u>	<u>\$ 135,428</u>	<u>6</u>

Other Receivable

Related Party	September 30				% to Total Other Receivable
	2011		2012		
	Amount NT\$	% to Total Other Receivable	Amount NT\$	US\$ (Note 3)	
Beats Electronics, LLC	\$ -	-	\$ 6,619,951	\$ 225,833	89
HTC Innovation Limited	-	-	38,653	1,319	-
HTC America Inc.	29,558	2	19,254	657	-
Others	<u>2,280</u>	<u>-</u>	<u>120</u>	<u>4</u>	<u>-</u>
	<u>\$ 31,838</u>	<u>2</u>	<u>\$ 6,677,978</u>	<u>\$ 227,813</u>	<u>89</u>

For details of other receivable from Beats Electronics, LLC, please refer to Loan section of Note 26.

Prepaid Expenses

Related Party	September 30				% to Total Prepayment
	2011		2012		
	Amount NT\$	% to Total Prepayment	Amount NT\$	US\$ (Note 3)	
HTC Communication Technologies (SH)	\$ -	-	\$ 92,990	\$ 3,172	2
HTC America Innovation Inc.	243,884	4	-	-	-
HTC India Private Limited	57,802	1	-	-	-
Others	<u>29,638</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 331,324</u>	<u>5</u>	<u>\$ 92,990</u>	<u>\$ 3,172</u>	<u>2</u>

Accrued Expenses

Related Party	September 30				
	2011		2012		
	Amount	% to Total Accrued Expenses	Amount		% to Total Accrued Expenses
NT\$		NT\$	US\$ (Note 3)		
HTC EUROPE CO., LTD.	\$ 768,689	2	\$ 627,173	\$ 21,395	2
HTC America Innovation Inc.	249,539	1	164,311	5,605	1
Communication Global Certification Inc.	54,796	-	97,607	3,330	1
Saffron Digital Ltd.	75,829	-	91,395	3,118	1
HTC HK, Limited	398,021	1	87,836	2,997	-
High Tech Computer Asia Pacific Pte. Ltd.	464,053	1	78,548	2,680	-
Abaxia SAS	27,297	-	60,481	2,063	-
HTC (Australia and New Zealand) PTY. Ltd.	173,921	-	53,330	1,819	-
HTC Communication Canada, Ltd.	8	-	51,866	1,769	-
HTC Belgium BVBA/SPRL	88,007	-	47,120	1,607	-
HTC Germany GmbH.	32,019	-	46,133	1,574	-
HTC (Thailand) Limited	115,692	-	37,735	1,287	-
PT. High Tech Computer Indonesia	-	-	35,828	1,222	-
HTC Brasil	64,134	-	32,921	1,123	-
HTC FRANCE CORPORATION	20,449	-	30,744	1,049	-
HTC Nordic ApS.	41,212	-	30,480	1,040	-
HTC India Private Limited	284,905	1	698	24	-
HTC NIPPON Corporation	44,539	-	-	-	-
HTC Cultural and Educational Foundation	217,800	1	-	-	-
Others	140,690	-	103,590	3,534	-
	<u>\$ 3,261,600</u>	<u>7</u>	<u>\$ 1,677,796</u>	<u>\$ 57,236</u>	<u>5</u>

Other Payables to Related Parties

Related Party	September 30				
	2011		2012		
	Amount	% to Total Other Payables	Amount		% to Total Other Payables
NT\$		NT\$	US\$ (Note 3)		
HTC EUROPE CO., LTD.	\$ 32,812	7	\$ 55,822	\$ 1,904	15
HTC America Inc.	91,488	18	38,853	1,325	10
HTC Corporation (Shanghai WGQ)	33,850	7	20,820	710	6
HTC Innovation Limited	31,931	6	20,678	706	5
High Tech Computer Asia Pacific Pte. Ltd.	53,209	11	8,620	294	2
One & Company Design, Inc.	13,824	3	-	-	-
Others	11,920	2	17,295	590	5
	<u>\$ 269,034</u>	<u>54</u>	<u>\$ 162,088</u>	<u>\$ 5,529</u>	<u>43</u>

Outsourcing Expenses

Related Party	Nine Months Ended September 30				
	2011		2012		
	Amount	% to Total Outsourcing Expenses	Amount		% to Total Outsourcing Expenses
	NT\$		NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	\$ 18,600,137	99	\$ 11,231,099	\$ 383,137	99

Outsourcing expenses were calculated based on processing rate and the payment terms were similar to those paid to third parties.

Warranty Expenses

Related Party	Nine Months Ended September 30				
	2011		2012		
	Amount	% to Warranty Expenses	Amount		% to Warranty Expenses
	NT\$		NT\$	US\$ (Note 3)	
HTC Corporation (Shanghai WGQ) High Tech Computer Asia Pacific Pte. Ltd.	\$ 139,431	2	\$ 204,701	\$ 6,983	3
HTC EUROPE CO., LTD.	51,807	-	71,387	2,435	1
HTC HK, Limited	244,346	2	63,997	2,183	1
HTC BRASIL	4,444	-	26,760	913	-
HTC (Australia and New Zealand) PTY. Ltd.	21,885	-	17,462	596	-
High Tech Computer (H.K.) Limited	7,789	-	10,307	352	-
Others	10,210	-	-	-	-
	10,036	-	23,583	804	-
	\$ 489,948	4	\$ 418,197	\$ 14,266	5

Warranty expense resulted from authorizing the above related parties to provide after-sales service and the amount was calculated based on the actual repair quantities during warranty period.

Commission Expenses

Related Party	Nine Months Ended September 30				
	2011		2012		
	Amount	% to Total Commission Expenses	Amount		% to Total Commission Expenses
	NT\$		NT\$	US\$ (Note 3)	
HTC EUROPE CO., LTD.	\$ 4,347,025	78	\$ 3,328,012	\$ 113,532	74
HTC Belgium BVBA/SPRL	382,876	7	374,236	12,766	8
HTC Germany GmbH.	207,416	4	179,563	6,126	4
HTC FRANCE CORPORATION	140,408	3	169,527	5,783	4
HTC Nordic ApS.	209,508	4	147,113	5,019	3
HTC Italia SRL	-	-	70,168	2,394	2
HTC Netherlands B.V.	73,303	1	69,965	2,387	2
HTC Iberia S.L.	86,524	2	66,545	2,270	1
Others	73,917	1	88,602	3,022	2
	\$ 5,520,977	100	\$ 4,493,731	\$ 153,299	100

Commission expenses resulted from authorizing the related parties to expand business overseas and accounted as commission expense based on their nature.

Service and Marketing Fees

Related Party	Nine Months Ended September 30				
	2011		2012		% to Total Service and Marketing Fees
	Amount NT\$	% to Total Service and Marketing Fees	Amount NT\$	Amount US\$ (Note 3)	
HTC America Innovation Inc.	\$ 1,370,686	9	\$ 1,380,591	\$ 47,097	8
High Tech Computer Asia Pacific Pte. Ltd.	808,049	4	719,369	24,541	4
HTC (Australia and New Zealand) PTY. Ltd.	514,361	3	685,220	23,376	4
HTC Communication Technologies (SH)	-	-	527,490	17,995	3
HTC India Private Limited	365,366	2	344,758	11,761	2
HTC HK, Limited	498,428	3	262,410	8,952	2
Communication Global Certification Inc.	171,502	1	251,789	8,590	1
ABAXIA SAS	200,845	1	236,025	8,052	1
Saffron Digital Ltd.	218,682	1	234,101	7,986	1
HTC Communication Canada, Ltd.	8	-	211,988	7,232	1
PT. High Tech Computer Indonesia	-	-	180,128	6,145	1
HTC NIPPON Corporation	125,683	-	168,177	5,737	1
One & Company Design, Inc.	232,046	1	162,317	5,537	1
HTC Malaysia Sdn. Bhd.	165,840	1	114,101	3,892	1
HTC (Thailand) Ltd.	161,220	1	98,224	3,351	1
HTC BRASIL	197,063	1	95,987	3,273	1
HTC Innovation Limited	289,718	2	19,493	665	-
High Tech Computer (H.K.) Limited	70,068	-	-	-	-
Others	22,792	-	9,747	333	-
	<u>\$ 5,412,357</u>	<u>30</u>	<u>\$ 5,701,915</u>	<u>\$ 194,515</u>	<u>33</u>

Service and market fees resulted from authorizing the related parties to expand business overseas, design, research and development support and consulting services. These fees were calculated based on contract duration.

Leasing - Lessee

Operating expenses - rental expenses

Related Party	Nine Months Ended September 30				
	2011		2012		% to Total Rental Expenses
	Amount NT\$	% to Total Rental Expenses	Amount NT\$	Amount US\$ (Note 3)	
VIA Technologies Inc.	\$ 3,906	3	\$ 3,906	\$ 133	5

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

Donation

Related Party	Nine Months Ended September 30				% to Total Donation
	2011		2012		
	Amount	% to Total Donation	Amount	% to Total Donation	
	NT\$		NT\$	US\$ (Note 3)	
HTC Cultural and Educational Foundation	\$ -	-	\$ 836	\$ 29	14

Note 17 has more information about HTC Cultural and Educational Foundation.

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 nine months ended September 30, 2012 was NT\$193,492 thousand (US\$6,601 thousand). As of September 30, 2012, there was NT\$41,568 thousand (US\$1,418 thousand) unpaid.

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 nine months ended September 30, 2012 was NT\$7,077 thousand (US\$241 thousand). The royalty prepayment for nine months ended September 30, 2012 was NT\$22,291 thousand (US\$760 thousand).

Openmoko, Inc.

The Company entered into a platform technology license agreement with Openmoko, Inc. The agreement took effect in April 2012 and will end in March 2013. The royalty expense for nine months ended September 30, 2012 was NT\$2,136 thousand (US\$73 thousand).

Property Transaction

For the nine months ended September 30, 2011 and 2012, the Company bought the auxiliary facilities of buildings from Chander Electronics Corp. for NT\$6,555 and NT\$55,891 thousand (US\$1,907 thousand), respectively.

Patent Litigation

Note 30 has more information.

Loan

On July 19, 2012, the Company's board of directors passed a resolution to offer US\$225,000 thousand short-term loan to Beats Electronics, LLC to support the transition of Beats into a product company. This loan was secured by all the assets of Beats. Term loan must be repaid in full no later than one year from signing date of loan agreement and the repayment can be made in full at anytime during the term of the loan or at the repayment date. The calculation of interest is based on LIBOR plus 1.5%, 3.5%, 5.5% and 7.5% for the first quarter to the fourth quarter, respectively. The loan details were as follows:

Name of Counterparty	Account	Nine Months Ended September 30, 2012			
		Maximum Balance	Ending Balance	Interest Rate	Interest Revenue
Beats Electronics, LLC	Other receivable	<u>\$ 6,595,538</u> (US\$ 225,000)	<u>\$ 6,595,538</u> (US\$ 225,000)	1.9466%-1.9551%	<u>\$ 24,413</u> (US\$ 833)

27. PLEDGED ASSETS

In order to protect the rights and interests of its employees, the Company appropriated, in respect of the accrued employee bonus recognized, NT\$3,645,820 thousand (US\$124,373 thousand) in September 2012 to establish a trust account. The trust account, which is under Restricted Assets - Current, amounted to NT\$3,645,820 thousand (US\$124,373 thousand) as of September 30, 2012. As of September 30, 2011 the Company had provided time deposits of NT\$63,900 thousand to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

28. COMMITMENTS AND CONTINGENCIES

As of September 30, 2012, unused letters of credit amounted to US\$666 thousand and EUR206 thousand.

29. SIGNIFICANT CONTRACTS

Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: a. If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.

(Continued)

Contractor	Contract Term	Description
	b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents in the agreement.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents in the agreement.	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.
MOTOROLA, INC.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents in the agreement. b. Any time when the Company is not using any of Motorola's intellectual property.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

(Concluded)

30. OTHER EVENTS

Lawsuit

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

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

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

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

As of October 26, 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 Exede 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 December 2011, the Company received the notice of ITC committee’s final determination in the Apple vs. HTC case, (ITC No. 337-TA-710). Apple originally asserted 10 of its patents against the Company in March 2010, and the ITC Committee ruled that the Company infringed on 1 patent. Apple has appealed and the Company is implementing workaround into new products, so business is not affected in the US. As for the investigation filed by the Company against Apple (ITC No. 337-TA-721) on October 17, 2011, the ITC judge issued his initial determination and ruled that Apple does not infringe the 4 asserted patents owned by the Company.

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

As of October 26, 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. (“the Company”) concurrently with the ITC and U.S. District Court of Western District of New York (“New York court”), alleging that the Company infringed its patents. Kodak requested ITC and New York court to prevent the Company from exporting to and selling in United States devices made using Kodak’s patents and damage compensation, respectively. The Company evaluated that there is no direct relation between the associated technology used in the Company’s devices and patents claimed by Kodak. The Company believes the lawsuits have limited impact on its financial results or sales activities.

As of October 26, 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.

- d. In May 2012, Nokia Corporation (“Nokia”) filed a lawsuit against the Company, HTC America, Inc. and Exedea, Inc. (“the Company”) concurrently with the ITC, Delaware court and the District Courts of Mannheim, Munich and Dusseldorf in Germany (“German courts”), alleging that these companies infringed its patents. Nokia requested ITC to prevent the Company from exporting to and selling in United States devices made using Nokia’s patents and requested Delaware court and German courts to grant damage compensation upon Nokia. The Company subsequently filed revocation actions against Nokia’s asserted patents in London High Court. The Company evaluated that there is no direct relation between the associated technology used in the Company’s devices and patents claimed by Nokia. The Company believes the lawsuits have limited impact on its financial results or sales activities.

As of October 26, 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.

- e. The Company had shared lawsuit-related costs on the basis of common benefits and agreements between the Company and its vendors and customers. For the nine months ended September 30, 2011 and 2012, companies that the Company shared lawsuit-related costs with included VIA Technologies Inc. and its subsidiaries.
- f. On the basis of its past experience and consultations with its legal counsel, the Company has evaluated the possible effects of the above lawsuits on its business and financial condition, and recognized its estimable cost.

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

	September 30			
	2011		2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 3,381,450	30.49	\$ 2,591,486	29.31
EUR	578,747	41.24	259,794	37.91
GBP	72,651	47.48	36,867	47.61
JPY	162,167	0.3975	3,394,329	0.3779
RMB	80	4.77	708,141	4.65
Investments accounted for by the equity method				
USD	99,518	30.49	408,038	29.31
SGD	557,609	23.52	1,180,876	23.93

(Continued)

	September 30			
	2011		2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial liabilities</u>				
Monetary items				
USD	\$ 3,511,368	30.49	\$ 2,933,515	29.31
EUR	604,038	41.24	281,448	37.91
GBP	68,196	47.48	46,105	47.61
JPY	468,168	0.3975	10,376,382	0.3779
RMB	102,623	4.77	1,183,650	4.65
				(Concluded)

31. SEGMENT DISCLOSURES

The Company has provided the operating segments disclosure in the consolidated financial statements.