

HTC Corporation and Subsidiaries

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

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of March 31, 2010 and 2011, and the related consolidated statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated 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 consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the order VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan as of November 15, 2007, and accounting principles generally accepted in the Republic of China.

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

April 19, 2011

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated 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 consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent accountants' review report and consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2010 AND 2011

(In Thousands, Except Par Value)

(Reviewed, Not Audited)

ASSETS	2010			2011		
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS						
Cash and cash equivalents (Notes 2 and 5)	\$ 69,727,128	\$ 94,828,263	\$ 3,224,738			
Financial assets at fair value through profit or loss (Notes 2, 6 and 24)	68,325	-	-			
Available-for-sale financial assets - current (Notes 2 and 7)	2,158,855	442,557	15,050			
Notes and accounts receivable, net (Notes 2, 8 and 25)	26,732,912	61,757,184	2,100,121			
Other current financial assets (Notes 9 and 25)	309,249	1,519,431	51,670			
Inventories (Notes 2 and 10)	8,637,456	29,718,517	1,010,610			
Prepayments (Note 11)	3,104,409	4,029,030	137,012			
Deferred tax assets (Notes 2 and 22)	892,003	1,298,202	44,147			
Other current assets	181,289	870,248	29,593			
Total current assets	<u>111,811,626</u>	<u>194,463,432</u>	<u>6,612,941</u>			
INVESTMENTS						
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	313	530	18			
Held-to-maturity financial assets - noncurrent (Notes 2 and 12)	-	207,120	7,043			
Financial assets carried at cost (Notes 2 and 13)	564,792	2,448,548	83,266			
Prepayments for long-term investments (Notes 2 and 13)	-	63,224	2,150			
Total investments	<u>565,105</u>	<u>2,719,422</u>	<u>92,477</u>			
PROPERTIES (Notes 2 and 15)						
Cost						
Land	5,387,718	5,844,955	198,764			
Buildings and structures	4,341,814	5,443,676	185,118			
Machinery and equipment	4,716,037	7,619,266	259,101			
Molding equipment	199,752	172,632	5,871			
Computer equipment	414,013	530,812	18,051			
Transportation equipment	4,568	7,741	263			
Furniture and fixtures	458,358	268,650	9,136			
Leased assets	5,949	5,929	202			
Leasehold improvements	203,961	283,669	9,646			
	15,732,170	20,177,330	686,152			
Less: Accumulated depreciation	(5,263,774)	(6,129,034)	(208,425)			
Prepayments for construction-in-progress and equipment-in-transit	47,611	548,513	18,653			
Properties, net	<u>10,516,007</u>	<u>14,596,809</u>	<u>496,380</u>			
INTANGIBLE ASSETS (Note 2)						
Patents	-	198,675	6,756			
Goodwill	239,983	1,948,824	66,272			
Deferred pension cost	490	416	14			
Other intangible assets	-	184,822	6,285			
Total intangible assets	<u>240,473</u>	<u>2,332,737</u>	<u>79,327</u>			
OTHER ASSETS						
Refundable deposits	123,927	133,937	4,555			
Deferred charges (Note 2)	227,742	306,364	10,418			
Deferred tax assets (Notes 2 and 22)	1,141,965	3,012,281	102,436			
Restricted assets (Notes 2 and 26)	107,385	93,347	3,174			
Others (Notes 2 and 11)	1,882,905	4,020,309	136,715			
Total other assets	<u>3,483,924</u>	<u>7,566,238</u>	<u>257,298</u>			
TOTAL	<u>\$ 126,617,135</u>	<u>\$ 221,678,638</u>	<u>\$ 7,538,423</u>			
				LIABILITIES AND STOCKHOLDERS' EQUITY		
				CURRENT LIABILITIES		
				Short-term borrowings (Note 16)	\$ 67,326	\$ -
				Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	-	143,651
				Notes and accounts payable (Note 25)	27,828,179	67,448,735
				Income tax payable (Notes 2 and 22)	5,134,925	9,616,219
				Accrued expenses (Notes 17 and 25)	20,438,346	41,450,199
				Payable for purchase of equipment	134,003	248,096
				Long-term liabilities - current portion (Note 19)	19,375	16,250
				Other current liabilities (Notes 18 and 25)	7,179,473	12,905,072
				Total current liabilities	60,801,627	131,828,222
				LONG-TERM LIABILITIES		
				Long-term bank loans, net of current portion (Note 19)	20,313	4,063
				OTHER LIABILITIES		
				Guarantee deposits received	1,572	16,417
				Total liabilities	<u>60,823,512</u>	<u>131,848,702</u>
				STOCKHOLDERS' EQUITY (Note 20)		
				Capital stock - NT\$10.00 par value		
				Authorized: 1,000,000 thousand shares		
				Issued and outstanding: 788,936 thousand shares in 2010 and 817,653 thousand shares in 2011		
				Common stock	7,889,358	8,176,532
				Capital surplus		
				Additional paid-in capital from share issuance in excess of par	9,056,323	10,777,623
				Long-term equity investments	18,411	18,411
				From merger	25,189	24,710
				Retained earnings		
				Legal reserve	10,273,674	10,273,674
				Accumulated earnings	43,362,526	67,709,756
				Cumulative translation adjustments (Note 2)	(23,456)	(297,872)
				Net loss not recognized as pension cost	(34)	(121)
				Unrealized losses on financial instruments (Notes 2 and 24)	(1,658)	(284)
				Treasury stock (Notes 2 and 21)	(4,834,174)	(6,852,493)
				Equity attributable to stockholders of the parent	65,766,159	89,829,936
				MINORITY INTEREST	27,464	-
				Total stockholders' equity	<u>65,793,623</u>	<u>89,829,936</u>
				TOTAL	<u>\$ 126,617,135</u>	<u>\$ 221,678,638</u>
						<u>\$ 7,538,423</u>

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

HTC CORPORATION AND SUBSIDIARIES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$ 37,947,114	\$ 104,156,600	\$ 3,541,958
COST OF REVENUES (Notes 10 and 25)	<u>26,345,768</u>	<u>73,686,190</u>	<u>2,505,779</u>
GROSS PROFIT	<u>11,601,346</u>	<u>30,470,410</u>	<u>1,036,179</u>
OPERATING EXPENSES (Note 25)			
Selling and marketing	3,078,347	8,821,201	299,975
General and administrative	872,534	1,225,016	41,658
Research and development	<u>1,986,325</u>	<u>3,953,709</u>	<u>134,450</u>
Total operating expenses	<u>5,937,206</u>	<u>13,999,926</u>	<u>476,083</u>
OPERATING INCOME	<u>5,664,140</u>	<u>16,470,484</u>	<u>560,096</u>
NONOPERATING INCOME AND GAINS			
Interest income	66,130	126,664	4,307
Gain on disposal of properties	3	-	-
Gain on sale of investments	1,476	-	-
Exchange gain (Note 2)	-	557,855	18,971
Valuation gain on financial instruments, net (Notes 2 and 6)	68,325	-	-
Other	<u>16,352</u>	<u>49,957</u>	<u>1,699</u>
Total nonoperating income and gains	<u>152,286</u>	<u>734,476</u>	<u>24,977</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	520	2,442	83
Losses on disposal of properties	1	344	12
Exchange loss (Note 2)	48,799	-	-
Valuation loss on financial instruments, net (Notes 2 and 6)	-	143,651	4,885
Other	<u>7,612</u>	<u>9,369</u>	<u>319</u>
Total nonoperating expenses and losses	<u>56,932</u>	<u>155,806</u>	<u>5,299</u>
INCOME BEFORE INCOME TAX	5,759,494	17,049,154	579,774
INCOME TAX (Notes 2 and 22)	<u>(767,810)</u>	<u>(2,216,290)</u>	<u>(75,367)</u>
NET INCOME	<u>\$ 4,991,684</u>	<u>\$ 14,832,864</u>	<u>\$ 504,407</u>

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HTC CORPORATION AND SUBSIDIARIES

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

	2010		2011		US\$ (Note 3)
	NT\$	NT\$	NT\$	US\$	
ATTRIBUTABLE TO					
Stockholders of the parent	\$ 4,998,427	\$ 14,832,864	\$ 504,407		
Minority interest	<u>(6,743)</u>	<u>-</u>	<u>-</u>		
	<u>\$ 4,991,684</u>	<u>\$ 14,832,864</u>	<u>\$ 504,407</u>		
	2010		2011		
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$
	NT\$	NT\$	NT\$	US\$ (Note 3)	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 23)	<u>\$ 7.30</u>	<u>\$ 6.38</u>	<u>\$ 20.63</u>	<u>\$ 0.70</u>	<u>\$ 18.36</u>
DILUTED EARNINGS PER SHARE (Note 23)	<u>\$ 7.27</u>	<u>\$ 6.35</u>	<u>\$ 20.56</u>	<u>\$ 0.70</u>	<u>\$ 18.29</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2010 AND 2011

(In Thousands)

(Reviewed, Not Audited)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 4,991,684	\$ 14,832,864	\$ 504,407
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	216,794	338,707	11,518
Amortization	19,366	92,162	3,134
Amortization of premium on financial assets	-	826	28
Prepaid pension costs	(5,285)	(8,938)	(304)
(Gain) loss on disposal of properties, net	(2)	344	12
Transfer of properties to expenses	684	594	20
Gain on sale of investments, net	(1,476)	-	-
Deferred income tax assets	(154,023)	(892,799)	(30,361)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(50,193)	629,556	21,409
Notes and accounts receivable	392,697	(21,380)	(727)
Other current financial assets	(50,775)	(735,891)	(25,025)
Inventories	(2,601,249)	(3,304,770)	(112,382)
Prepayments	237,240	(1,370,708)	(46,612)
Other current assets	(8,417)	(102,423)	(3,483)
Other assets - other	103,012	(1,368,390)	(46,534)
Notes and accounts payable	2,197,164	3,483,832	118,472
Income tax payable	863,963	2,806,578	95,441
Accrued expenses	3,474,458	7,981,281	271,412
Other current liabilities	565,202	1,819,929	61,889
Net cash provided by operating activities	<u>10,190,844</u>	<u>24,181,374</u>	<u>822,314</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	(2,708,855)	-	-
Proceeds of the sale of available-for-sale financial assets	3,048,870	-	-
Increase in financial assets carried at cost	-	(1,463,490)	(49,768)
Increase in prepayments for long-term investments	-	(14,598)	(497)
Acquisition of a subsidiary	245,000	(1,373,303)	(46,701)
Purchase of properties	(816,331)	(1,014,241)	(34,490)
Proceeds of the sale of properties	28	555	19
Decrease in refundable deposits	4,728	16,923	575
Increase in deferred charges	(613)	(81,058)	(2,756)
(Increase) decrease in restricted assets	(1,133)	2,341	80
Net cash used in investing activities	<u>(228,306)</u>	<u>(3,926,871)</u>	<u>(133,538)</u>

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2010 AND 2011

(In Thousands)

(Reviewed, Not Audited)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowings	\$ (5,000)	\$ -	\$ -
Decrease in long-term bank loans	(7,187)	(4,063)	(138)
Increase in guarantee deposits received	362	2,458	83
Purchase of treasury stock	<u>(4,834,174)</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(4,845,999)</u>	<u>(1,605)</u>	<u>(55)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	<u>(27,701)</u>	<u>112,504</u>	<u>3,825</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
	5,088,838	20,365,402	692,546
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD			
	<u>64,638,290</u>	<u>74,462,861</u>	<u>2,532,192</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD			
	<u>\$ 69,727,128</u>	<u>\$ 94,828,263</u>	<u>\$ 3,224,738</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest (net of amounts capitalized)	\$ <u>522</u>	\$ <u>3,660</u>	\$ <u>124</u>
Income tax	\$ <u>57,870</u>	\$ <u>302,287</u>	\$ <u>10,280</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of assets leased to others to properties	<u>\$ 48,135</u>	<u>\$ 50,828</u>	<u>\$ 1,728</u>
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 796,521	\$ 827,648	\$ 28,145
Decrease in payable for purchase of equipment	19,548	193,880	6,593
Decrease (increase) in lease payable	<u>262</u>	<u>(7,287)</u>	<u>(248)</u>
Cash paid for purchase of properties	<u>\$ 816,331</u>	<u>\$ 1,014,241</u>	<u>\$ 34,490</u>
ACQUISITION OF A SUBSIDIARY			
Increase in investments accounted for by the equity method	\$ (245,000)	\$ 1,374,772	\$ 46,751
Increase in other payable	<u>-</u>	<u>(1,469)</u>	<u>(50)</u>
Cash paid for acquisition of a subsidiary	<u>\$ (245,000)</u>	<u>\$ 1,373,303</u>	<u>\$ 46,701</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

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

1. ORGANIZATION AND OPERATIONS

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

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company,” had 8,948 and 12,943 employees as of March 31, 2010 and 2011, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and the order VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan as of November 15, 2008, and accounting principles generally accepted in the Republic of China (“ROC”). In preparing consolidated financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for inventory devaluation, property depreciation, royalty, accrued pension cost, and warranty liability. Actual results could differ from these estimates.

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

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all the direct and indirect subsidiaries of HTC and the accounts of investees that are not majority owned by HTC but in which HTC has controlling interests.

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

The consolidated entities as of March 31, 2010 and 2011 were as follows:

Investor	Investee	Main Businesses	% of Ownership		Remark
			2010	2011	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding	100.00	100.00	Incorporated in August 2000
	BandRich Inc.	Design, manufacture and sale of electronic devices	50.66	18.08	Incorporated in April 2006, lost significant influence in July 2010
	Communication Global Certification Inc.	Testing and certification services	100.00	100.00	Invested in January 2007
	High Tech Computer Asia Pacific Pte. Ltd.	International holding, marketing, distribution and after-sales service	100.00	100.00	Incorporated in July 2007
	HTC Investment Corporation	General investing activities	100.00	100.00	Incorporated in July 2008
	PT. High Tech Computer Indonesia	Marketing, distribution and after-sales service	1.00	1.00	Incorporated in December 2007
	HTC I Investment Corporation	General investing activities	100.00	100.00	Incorporated in September 2009
	HTC Holding Cooperatief U.A.	International holding	1.00	1.00	Incorporated in October 2009
	Huada Digital Corporation	Software service	100.00	100.00	Incorporated in January 2010
H.T.C. (B.V.I.) Corp.	HTC Europe Co., Ltd.	Marketing, distribution and after-sales service	-	-	Incorporated in July 2003, and transferred out for the reorganization in February 2010
	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2003
	Exedea Inc.	Distribution and sales	100.00	100.00	Incorporated in December 2004 and invested in July 2005
	HTC NIPPON Corporation	Marketing, distribution and after-sales service	100.00	-	Incorporated in March 2006, and transferred out for the reorganization in April 2010
	HTC BRASIL	"	-	-	Incorporated in October 2006, and transferred out for the reorganization in February 2010
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer Singapore Pte. Ltd.	Marketing, distribution and after-sales service	-	-	Incorporated in July 2007, and merged into High Tech Computer Asia Pacific Pte. Ltd. in February 2010
	High Tech Computer (H.K.) Limited	"	100.00	100.00	Incorporated in August 2007
	HTC (Australia and New Zealand) Pty. Ltd.	"	100.00	100.00	Incorporated in August 2007
	HTC Philippines Corporation	"	99.99	99.99	Incorporated in December 2007
	PT. High Tech Computer Indonesia	"	99.00	99.00	Incorporated in December 2007
	HTC India Private Ltd.	"	99.00	99.00	Incorporated in January 2008
	HTC (Thailand) Limited	"	100.00	100.00	Incorporated in November 2007 and invested in September 2008
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	-	-	Incorporated in January 2007, invested in July 2008, and transferred out for the reorganization in February 2010
	HTC Malaysia Sdn. Bhd.	Marketing, distribution and after-sales service	100.00	100.00	Incorporated in July 2008 and invested in January 2009
	HTC Innovation Limited	"	100.00	100.00	Incorporated in January 2009
	HTC Communication Co., Ltd.	The sale of smart handheld devices	100.00	100.00	Incorporated in December 2008 and invested in March 2009

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Investor	Investee	Main Businesses	% of Ownership		Remark
			2010	2011	
High Tech Computer Asia Pacific Pte. Ltd.	HTC America Inc.	Marketing, repair and after-sales services	100.00	-	Incorporated in January 2003, and transferred in for the reorganization in November 2009
	One & Company Design, Inc.	Design, research and development of application software	100.00	-	Incorporated in October 2008, and transferred in for the reorganization in November 2009
	HTC HK, Limited	"	100.00	100.00	Incorporated in August 2006, and transferred in for the reorganization in December 2009
	HTC Holding Cooperatief U.A.	International holding	99.00	99.00	Incorporated in October 2009
High Tech Computer Singapore Pte. Ltd.	HTC India Private Ltd.	Marketing, distribution and after-sales service	-	-	Incorporated in January 2008, and transferred out for the reorganization in February 2010
HTC HK, Limited	HTC Belgium BVBA/SPRL	Marketing, distribution and after-sales service	-	-	Incorporated in October 2006, and transferred out for the reorganization in March 2010
	HTC Corporation (Shanghai WGQ)	Repair and after-sales service	100.00	100.00	Incorporated in July 2007, and transferred in for the reorganization in December 2009
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2007, invested in July 2008, and transferred in for the reorganization in February 2010
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding, marketing, distribution and after-sales service	100.00	100.00	Incorporated in October 2009
	HTC India Private Ltd.	Marketing, distribution and after-sales service	1.00	1.00	Incorporated in January 2008, and transferred in for the reorganization in February 2010
	HTC South Eastern Europe Limited liability Company	"	-	0.67	Incorporated in June 2010
HTC Netherlands B.V.	HTC Europe Co., Ltd.	Marketing, repair and after-sales services	100.00	100.00	Incorporated in July 2003, and transferred in for the reorganization in February 2010
	HTC BRASIL	"	99.99	99.99	Incorporated in October 2006, and transferred in for the reorganization in February 2010
	HTC Belgium BVBA/SPRL	"	100.00	100.00	Incorporated in October 2006, and transferred in for the reorganization in March 2010
	HTC NIPPON Corporation	"	-	100.00	Incorporated in March 2006, and transferred in for the reorganization in April 2010
	HTC France Corporation	"	-	100.00	Incorporated in April 2010
	HTC South Eastern Europe Limited liability Company	"	-	99.33	Incorporated in June 2010
	HTC Nordic ApS.	"	-	100.00	Incorporated in July 2006, and transferred in for the reorganization in October 2010
	HTC Italia SRL	"	-	100.00	Incorporated in February 2007, and transferred in for the reorganization in October 2010

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Investor	Investee	Main Businesses	% of Ownership		Remark
			2010	2011	
HTC Netherlands B.V.	HTC Germany GmbH	Marketing, repair and after-sales services	-	100.00	Incorporated in October 2010
	HTC Iberia, S.L.	"	-	100.00	Incorporated in October 2010
	HTC Poland sp. z.o.o.	"	-	100.00	Incorporated in October 2010
	Saffron Media Group Ltd.	Design, research and development of application software	-	100.00	Invested in January 2011
HTC Belgium BVBA/SPRL	HTC Italia SRL	Marketing, repair and after-sales services	100.00	-	Incorporated in February 2007, and transferred out for the reorganization in October 2010
	HTC Nordic ApS.	"	-	-	Incorporated in July 2010, and transferred out for the reorganization in October 2010
HTC Europe Co., Ltd.	HTC America Holding Inc.	International holding	-	100.00	Incorporated in April 2010
HTC France Corporation	ABAXIA SAS	Design, research and development of application software	-	100.00	Invested in July 2010
HTC America Holding Inc.	HTC America Inc.	Marketing, repair and after-sales services	-	100.00	Incorporated in January 2003, and transferred in for the reorganization in April 2010
	One & Company Design, Inc.	Design, research and development of application software	-	100.00	Invested in October 2008, and transferred in for the reorganization in April 2010
	HTC America Innovation Inc.	"	-	100.00	Incorporated in April 2010, and invested in October 2010
ABAXIA SAS	BLR Soft	Design, research and development of application software	-	100.00	Invested in July 2010
Saffron Media Group Ltd.	Saffron Digital Ltd.	Design, research and development of application software	-	100.00	Invested in January 2011
	Saffron Digital Inc.	"	-	100.00	Invested in January 2011

(Concluded)

In January 2010 and 2011, the Company wholly acquired the shares issued by Huada Digital Corporation and Saffron Digital Ltd. The net assets of these companies were as follows:

	Huada Digital Corporation (Note)	Saffron Media Group Ltd.
Cash on hand and in banks	\$ 245,000	\$ 18,945
Other current assets	-	161,622
Property	-	8,629
Other assets	-	1,130
Current liabilities	-	(132,910)
Net assets	<u>\$ 245,000</u>	<u>\$ 57,416</u>

(Continued)

	Huada Digital Corporation (Note)	Saffron Media Group Ltd.
Total consideration	\$ -	\$ 1,393,717
Cash on hand and in banks	<u>(245,000)</u>	<u>(18,945)</u>
Net cash (inflow) outflow on the acquisition of a subsidiary	<u>\$ (245,000)</u>	<u>\$ 1,374,772</u> (Concluded)

Note: Huada Digital Corporation was included in the consolidated financial statement beginning January 2010. And before that, it was booked on prepayments for long-term investments on December 31, 2009.

Current/Noncurrent Assets and Liabilities

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

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

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

Available-for-sale Financial Assets

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

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

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

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

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

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process. Effective from January 1, 2008, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Cost is determined using the moving-average method.

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

Investments Accounted for by the Equity Method

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

Prior to January 1, 2006, the difference between the acquisition cost and the Company's proportionate share in the investee's equity was amortized by the straight-line method over five years. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard (SFAS) No. 5, "Long-term Investments Accounted for by Equity Method", the acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The excess of the fair value of the net identifiable assets acquired over the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. Effective January 1, 2006, the accounting treatment for the unamortized investment premium arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount continues to be amortized over the remaining year.

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

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

Properties

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

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

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

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

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

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

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Effective January 1, 2006, based on a newly released SFAS No. 37, goodwill arising on acquisitions of other companies is no longer amortized and instead is tested for impairment annually. If circumstances show that the fair value of goodwill has become lower than its carrying amount, an impairment loss is recognized. A reversal of this impairment loss is not allowed.

Deferred Charges

Deferred charges are telephone installation charges, computer software costs, deferred license fees and the right to the use of the land. Installation charges and computer software are amortized on a straight-line basis over 3 years, deferred license fees, over 10 years and the right to the use of the land, over 50 years.

Asset Impairment

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

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

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

Accrued Marketing Expenses

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

Reserve for Warranty Expenses

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

Product-related Costs

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

Pension Plan

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

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

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

Income Tax

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

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

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

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

All subsidiaries file income tax returns based on the regulations of their respective local governments. In addition, there is no material difference in the accounting principles on income taxes between the parent company and those of its subsidiaries.

Treasury Stock

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

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

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

Foreign Currencies

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

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

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

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

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

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

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

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

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

Reclassifications

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

3. TRANSLATION INTO U.S. DOLLARS

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

4. ACCOUNTING CHANGES

Financial Instruments

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

Operating Segments

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

5. CASH AND CASH EQUIVALENTS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 4,731	\$ 6,103	\$ 207
Cash in banks	3,510,060	20,163,477	685,681
Time deposits	<u>66,212,337</u>	<u>74,658,683</u>	<u>2,538,850</u>
	<u>\$ 69,727,128</u>	<u>\$ 94,828,263</u>	<u>\$ 3,224,738</u>

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

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

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

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

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

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

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

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

Net loss on derivative financial instruments for the three months ended March 31, 2011 was NT\$425,463 thousand (US\$14,468 thousand), including realized settlement gain of NT\$281,812 thousand (US\$9,583 thousand) and valuation gain of NT\$143,651 thousand (US\$4,885 thousand). Note 24 has more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

8. NOTES AND ACCOUNTS RECEIVABLE

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ 5,338	\$ -	\$ -
Accounts receivable	27,718,432	62,764,274	2,134,368
Accounts receivable from related parties	18,220	1,401	48
Less: Allowance for doubtful accounts	<u>(1,009,078)</u>	<u>(1,008,491)</u>	<u>(34,295)</u>
	<u>\$ 26,732,912</u>	<u>\$ 61,757,184</u>	<u>\$ 2,100,121</u>

9. OTHER CURRENT FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 256,488	\$ 1,467,671	\$ 49,910
Interest receivables	11,468	22,450	763
Agency payments	39,884	27,009	919
Other	<u>1,409</u>	<u>2,301</u>	<u>78</u>
	<u>\$ 309,249</u>	<u>\$ 1,519,431</u>	<u>\$ 51,670</u>

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

10. INVENTORIES

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 1,151,358	\$ 821,601	\$ 27,939
Work-in-process	2,612,255	9,563,784	325,227
Raw materials	4,733,130	17,887,531	608,285
Inventory in transit	<u>140,713</u>	<u>1,445,601</u>	<u>49,159</u>
	<u>\$ 8,637,456</u>	<u>\$ 29,718,517</u>	<u>\$ 1,010,610</u>

As of March 31, 2010 and 2011, the allowance for inventory devaluation was NT\$2,724,334 thousand and NT\$3,896,509 thousand (US\$132,505 thousand), respectively.

The cost of sales for the three months ended March 31, 2010 included NT\$62,913 thousand, which was due to the reversal of write-downs of inventories. The write-down of inventories to their net realizable value amounted to NT\$359,448 thousand (US\$12,223 thousand) and was recognized as cost of sales for the three months ended March 31, 2011.

11. PREPAYMENTS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 2,722,547	\$ 1,964,832	\$ 66,816
Prepayments to suppliers	30,344	1,239,008	42,134
Net input VAT	21,978	334,007	11,358
Marketing	141,435	249,843	8,496
Software and hardware maintenance	76,543	126,339	4,297
Rent	15,776	22,418	763
Insurance	7,768	11,710	398
Molding equipment	25,604	7,852	267
Others	<u>62,414</u>	<u>73,021</u>	<u>2,483</u>
	<u>\$ 3,104,409</u>	<u>\$ 4,029,030</u>	<u>\$ 137,012</u>

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

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

Prepayments for others were primarily service and travel expenses.

12. HELD-TO-MATURITY FINANCIAL ASSETS

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

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

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

13. FINANCIAL ASSETS CARRIED AT COST

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Answer Online, Inc.	\$ 1,192	\$ -	\$ -
BandRich Inc.	-	15,861	540
Hua-Chuang Automobile Information Technical Center Co., Ltd.	500,000	500,000	17,003
SoundHound Inc.	63,600	58,813	2,000
GSUO Inc.	-	147,033	5,000
NETQIN MOBILE Inc.	-	73,516	2,500
Luminous Optical Technology Co., Ltd.	-	183,000	6,223
OnLive, Inc.	-	1,176,260	40,000
KKBOX Inc.	-	294,065	10,000
Prepayments for long-term investments	<u>-</u>	<u>63,224</u>	<u>2,150</u>
	<u>\$ 564,792</u>	<u>\$ 2,511,772</u>	<u>\$ 85,416</u>

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

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

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

In July 2009, the Company acquired 4.37% equity interest in SoundHound Inc. (formerly Melodis Corporation until May 2010) for US\$2,000 thousand (NT\$58,813 thousand).

In May 2010, the Company acquired 11.11% equity interest in GSUO Inc. for US\$5,000 thousand (NT\$147,033 thousand).

In December 2010, the Company acquired 1.60% equity interest in NETQIN MOBILE Inc. for US\$2,500 thousand (NT\$73,516 thousand).

In December 2010, the Company acquired 10.00% equity interest in Luminous Optical Technology Co., Ltd. for NT\$183,000 thousand.

In February 2011, the Company acquired 3.82% equity interest in OnLive, Inc. for US\$40,000 thousand (NT\$1,176,260 thousand).

In March 2011, the Company acquired 11.10% equity interest in KKBOX Inc. for US\$10,000 thousand (NT\$294,065 thousand).

In July 2010 and February 2011, the Company invested Felicis Ventures II LP for US\$750 thousand (NT\$22,055 thousand) and US\$500 thousand (NT\$14,703 thousand), respectively. Because the registration of this investment had not been completed as of March 31, 2011, the investment was temporarily accounted for under “prepayments for long-term investments.”

In August 2010, the Company invested WI Harper Fund VII for US\$900 thousand (NT\$26,466 thousand). Because the registration of this investment had not been completed as of March 31, 2011, the investment was temporarily accounted for under “prepayments for long-term investments.”

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

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

	2010		2011				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method							
Vitamin D Inc.	\$ -	25.59	\$ -	\$ -	\$ -	\$ -	-

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

15. PROPERTIES

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

	2010		2011		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Land	\$ 5,387,718	\$ 5,844,955	\$ -	\$ 5,844,955	\$ 198,764
Buildings and structures	3,635,763	5,443,676	867,665	4,576,011	155,612
Machinery and equipment	1,010,142	7,619,266	4,450,856	3,168,410	107,745
Molding equipment	10,149	172,632	172,632	-	-
Computer equipment	125,878	530,812	338,410	192,402	6,543

(Continued)

	2010		2011		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Transportation equipment	\$ 1,254	\$ 7,741	\$ 2,959	\$ 4,782	\$ 163
Furniture and fixtures	201,871	268,650	177,371	91,279	3,104
Leased assets	2,305	5,929	4,830	1,099	37
Leasehold improvements	93,316	283,669	114,311	169,358	5,759
Prepayments for construction-in-progress and equipment-in-transit	<u>47,611</u>	<u>548,513</u>	<u>-</u>	<u>548,513</u>	<u>18,653</u>
	<u>\$ 10,516,007</u>	<u>\$ 20,725,843</u>	<u>\$ 6,129,034</u>	<u>\$ 14,596,809</u>	<u>\$ 496,380</u>

(Concluded)

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

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

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

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

16. SHORT-TERM BORROWINGS

Short-term borrowings as of March 31, 2010 and 2011 were as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Working capital loans, annual interest at 1.27%-3.00%	<u>\$ 67,326</u>	<u>\$ -</u>	<u>\$ -</u>

As of March 31, 2010, short-term borrowing was for BandRich Inc.'s raising working capital and material purchase. The Company lost its significant influence in BandRich Inc. in July 2010, BandRich Inc. was not included in the consolidated financial statements as of and for the three months ended March 31, 2011.

17. ACCRUED EXPENSES

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 10,854,306	\$ 23,209,756	\$ 789,273
Employees' bonus	5,932,503	11,677,761	397,115
Salaries	940,230	2,009,740	68,343
Services	793,644	1,661,523	56,502
Export expenses	627,344	1,041,545	35,419
Research materials	328,084	860,558	29,264
Donation	327,601	332,800	11,317
Meals and welfare	111,982	159,864	5,436
Insurance	75,796	148,077	5,036
Repairs and maintenance	73,253	82,545	2,807
Pension for contribution plan	54,245	80,317	2,731
Travel	31,449	58,310	1,983
Others	<u>287,909</u>	<u>127,403</u>	<u>4,333</u>
	<u>\$ 20,438,346</u>	<u>\$ 41,450,199</u>	<u>\$ 1,409,559</u>

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

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

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

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

18. OTHER CURRENT LIABILITIES

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 6,013,641	\$ 11,473,409	\$ 390,166
Advance receipts	359,517	448,672	15,258
Agency receipts	371,593	395,554	13,451
Other payable	211,084	152,381	5,182
Others	<u>223,638</u>	<u>435,056</u>	<u>14,794</u>
	<u>\$ 7,179,473</u>	<u>\$ 12,905,072</u>	<u>\$ 438,851</u>

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

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

In October 2008, H.T.C. (B.V.I.) Corp. acquired 100% equity interest of One & Company Design, Inc., and paid the investment to the original stockholders of One & Company Design, Inc. in several installments based on the agreement. In November 2009, One & Company Design, Inc. was sold to High Tech Computer Asia Pacific Pte. Ltd. in line with the reorganization of the Company's overseas subsidiaries' investment structure. Related liabilities between One & Company Design, Inc. and H.T.C. (B.V.I.) Corp. were transferred as well. Of the investment, NT\$42,349 thousand (US\$1,440 thousand) had not been paid as of March 31, 2011.

In July 2010, HTC France Corporation acquired 100% equity interest of ABAXIA SAS, and paid the investment to the original stockholders of ABAXIA SAS in several installments based on the agreement. Of the investment, NT\$109,878 thousand (US\$3,737 thousand) had not been paid as of March 31, 2011.

19. LONG-TERM BANK LOANS

Long-term bank loans as of March 31, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Secured loans (Note 26)			
NT\$65,000 thousand, repayable from July 2009 in 16 quarterly installments; 1% annual interest	\$ 39,688	\$ 20,313	\$ 691
Less: Current portion	<u>(19,375)</u>	<u>(16,250)</u>	<u>(553)</u>
	<u>\$ 20,313</u>	<u>\$ 4,063</u>	<u>\$ 138</u>

20. STOCKHOLDERS' EQUITY

Capital Stock

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

Global Depositary Receipts

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

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

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

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

Capital Surplus

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

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

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

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

Appropriation of Retained Earnings and Dividend Policy

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

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

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

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

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

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

21. TREASURY STOCK

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

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

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

(In Thousands of Shares)				
Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
<u>Three months ended March 31, 2010</u>				
To maintain the Company's credibility and shareholders' interest	-	15,000	-	15,000
<u>Three months ended March 31, 2011</u>				
For transferring shares to the Company's employees	9,786	-	-	9,786

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

22. INCOME TAX

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

The income tax returns of Communication Global Certification Inc. through 2008 had been examined by the tax authorities; the income tax returns of HTC Investment Corporation and HTC I Investment Corporation through 2009 had been examined by the tax authorities.

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

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

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

	2010			
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT\$	NT\$	NT\$	NT\$
HTC Corporation	\$ 722,117	\$ 4,962,110	\$ -	\$ 1970,908
BandRich Inc.	-	-	4,211	-
Communication Global Certification Inc.	(104)	-	28	1,681
High Tech Computer Asia Pacific Pte. Ltd.	179	426	-	(327)
HTC Investment Corporation	24	-	210	-
HTC I Investment Corporation	42	14	-	-
Huada Digital Corporation	-	-	7	-
Exedea Inc.	25,867	28,586	-	2,735
High Tech Computer (H.K.) Limited	81	80	-	-
HTC (Australia and New Zealand) Pty. Ltd.	746	3,408	-	3
HTC India Private Limited	241	53	-	-
HTC (Thailand) Limited	147	607	-	-
HTC Malaysia Sdn. Bhd.	304	537	-	(30)
HTC Innovation Limited	15	9	-	-
HTC Corporation (Shanghai WGQ)	370	369	255	-
HTC Electronics (Shanghai) Co., Ltd.	-	1,604	-	9,658
HTC EUROPE CO., LTD.	16,885	85,615	-	-
HTC BRASIL	(6,273)	-	7,414	6,283
HTC Belgium BAVA/SPRL	3,090	13,506	-	-
HTC NIPPON Corporation	558	-	5,336	-
HTC America Inc.	3,568	36,414	-	46,142
One & Company Design, Inc.	(47)	1,587	-	(3,085)
	<u>\$ 767,810</u>	<u>\$ 5,134,925</u>	<u>\$ 17,461</u>	<u>\$ 2,033,968</u>

2011

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
		(Note 3)		(Note 3)		(Note 3)		(Note 3)
HTC Corporation	\$ 1,834,521	\$ 62,385	\$ 9,055,178	\$ 307,931	\$ -	\$ -	\$ 4,159,668	\$ 141,454
Communication Global Certification Inc.	1,085	37	2,295	78	-	-	2,350	80
High Tech Computer Asia Pacific Pte. Ltd.	4,913	167	5,201	177	-	-	37	1
HTC Investment Corporation	31	1	-	-	207	7	-	-
HTC I Investment Corporation	30	1	42	1	-	-	-	-
Huada Digital Corporation	48	2	44	1	-	-	-	-
Exedea Inc.	658	22	-	-	137	5	-	-
High Tech Computer (H.K.) Limited	838	28	1,482	51	-	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	2,535	86	-	-	2,025	69	(1,243)	(42)
HTC India Private Limited	1,280	43	14,642	498	-	-	-	-
HTC (Thailand) Limited	551	19	1,268	43	-	-	-	-
HTC Malaysia Sdn. Bhd.	389	13	-	-	437	15	274	9
HTC Innovation Limited	564	19	59	2	-	-	-	-
HTC Communication Co., Ltd.	(30,249)	-1029	15,037	511	-	-	126,101	4,288
HTC HK, Limited	-	-	54	2	-	-	-	-
HTC Corporation (Shanghai WGQ)	356	12	654	22	-	-	-	-
HTC Electronics (Shanghai) Co., Ltd.	31,059	1,056	85,196	2,897	-	-	50,087	1,703
HTC Netherlands B.V.	380	13	1,406	48	-	-	-	-
HTC EUROPE CO., LTD.	39,903	1,357	125,599	4271	-	-	9,044	308
HTC BRASIL	229	8	-	-	341	11	2,688	92
HTC Belgium BAVA/SPRL	208	7	11,274	384	-	-	-	-
HTC NIPPON Corporation	1,730	59	921	31	-	-	-	-
HTC FRANCE CORPORATION	665	23	3,951	134	-	-	(84,389)	(2,870)
HTC South Eastern Europe Limited liability Company	175	6	630	22	-	-	-	-
HTC Nordic ApS.	1,527	52	1,820	62	-	-	(59)	(2)
HTC Italia SRL	643	22	-	-	712	24	-	-
HTC Germany GmbH.	2,052	70	1,370	47	-	-	-	-
HTC Iberia S.L.	1,377	47	1,824	62	-	-	-	-
HTC Poland sp. z o.o.	16	1	1,358	46	-	-	2,130	73
ABAXIA SAS	-	-	-	-	7,286	248	-	-
HTC America Inc. One & Company Design, Inc.	313,676	10,667	256,607	8,726	-	-	28,051	954
HTC America Innovation Inc.	1,537	52	-	-	4,326	147	2,353	80
BLRSoft	3,447	117	18,990	646	-	-	13,391	455
Saffron Digital Inc.	116	4	126	4	-	-	-	-
	-	-	9,191	313	-	-	-	-
	<u>\$ 2,216,290</u>	<u>\$ 75,367</u>	<u>\$ 9,616,219</u>	<u>\$ 327,010</u>	<u>\$ 15,471</u>	<u>\$ 526</u>	<u>\$ 4,310,483</u>	<u>\$ 146,583</u>

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	\$ 538,281	\$ 657,489	\$ 22,359
Unrealized marketing expenses	2,147,959	3,644,991	123,952
Unrealized contingent losses of purchase orders	135,505	379,738	12,913
Unrealized reserve for warranty expenses	1,202,594	1,885,617	64,123
Capitalized expenses	44,466	70,614	2,402
Unrealized royalties	1,824,114	3,538,139	120,318
Unrealized bad-debt expenses	170,362	57,499	1,955
Unrealized valuation loss on financial instruments	-	24,421	830
Unrealized exchange loss	29,653	-	-
Other	21,906	13,403	456
Loss carryforwards	57,176	120,744	4,106
Tax credit carryforwards	<u>3,157,393</u>	<u>3,146,702</u>	<u>107,007</u>
Total deferred tax assets	9,329,409	13,539,357	460,421
Less: Valuation allowance	<u>(7,253,187)</u>	<u>(8,934,095)</u>	<u>(303,814)</u>
Total deferred tax assets, net	2,076,222	4,605,262	156,607
Deferred tax liabilities			
Unrealized pension cost	(28,589)	(28,585)	(972)
Unrealized valuation gain on financial instruments	(13,665)	-	-
Unrealized exchange gain	-	<u>(266,194)</u>	<u>(9,052)</u>
	2,033,968	4,310,483	146,583
Less: Current portion	<u>(892,003)</u>	<u>(1,298,202)</u>	<u>(44,147)</u>
Deferred tax assets - noncurrent	<u>\$ 1,141,965</u>	<u>\$ 3,012,281</u>	<u>\$ 102,436</u>

Details of the tax credit carryforwards were as follows:

Credit Grant Year	Validity Period	2010	2011	
		NT\$	NT\$	US\$ (Note 3)
2006	2006-2010	\$ 15,475	\$ -	\$ -
2007	2007-2011	220,249	2,950	100
2008	2008-2012	874,619	833,163	28,333
2009	2009-2013	<u>2,047,050</u>	<u>2,310,589</u>	<u>78,574</u>
		<u>\$ 3,157,393</u>	<u>\$ 3,146,702</u>	<u>\$ 107,007</u>

Details of the loss carryforwards were as follows:

Loss Year	Validity Period	2010	2011	
		NT\$	NT\$	US\$ (Note 3)
2006	2007-2016	\$ 48,999	\$ -	\$ -
2007	2008-2017	48,885	-	-
2008	2009-2018	102,497	-	-
2009	2010-2019	16,519	-	-
2010	2011-2020	<u>18,922</u>	<u>-</u>	<u>-</u>
		<u>\$ 235,822</u>	<u>\$ -</u>	<u>\$ -</u>

The loss carryforwards of HTC Communication Co., Ltd. that gave rise to deferred tax assets in People's Republic of China were NT\$119,174 thousand (US\$4,053 thousand) and could be carried forward for four years.

The loss carryforwards of HTC BRASIL that gave rise to deferred tax assets in the Federative Republic of Brazil were NT\$1,570 thousand (US\$53 thousand). Taxation could be made on its net income after deduction of losses incurred in the preceding years, but the deduction cannot exceed 30% of the taxable income in current year.

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

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

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

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 920,722	\$ 3,125,340	\$ 106,281
Increase in deferred income tax assets	(154,023)	(892,799)	(30,361)
Underestimation (overestimation) of prior year's income tax	<u>1,111</u>	<u>(16,251)</u>	<u>(553)</u>
Income tax	<u>\$ 767,810</u>	<u>\$ 2,216,290</u>	<u>\$ 75,367</u>

The integrated income tax information is as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account (ICA)	\$ 1,708,445	\$ 3,027,364	\$ 102,949
Unappropriated earnings from 1998	43,362,526	67,709,756	2,302,544
Expected creditable ratio (including income tax payable)	13.12%	15.49%	15.49%

23. EARNINGS PER SHARE

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

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

	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
<u>Three months ended March 31, 2010</u>					
Basic EPS	\$ 5,720,544	\$ 4,998,427	783,430	<u>\$ 7.30</u>	<u>\$ 6.38</u>
Bonus to employees	-	-	3,276		
Diluted EPS	<u>\$ 5,720,544</u>	<u>\$ 4,998,427</u>	<u>786,706</u>	<u>\$ 7.27</u>	<u>\$ 6.35</u>
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
<u>Three months ended March 31, 2011</u>					
Basic EPS	\$ 16,667,385	\$ 14,832,864	807,867	<u>\$ 20.63</u>	<u>\$ 18.36</u>
Bonus to employees	-	-	2,978		
Diluted EPS	<u>\$ 16,667,385</u>	<u>\$ 14,832,864</u>	<u>810,845</u>	<u>\$ 20.56</u>	<u>\$ 18.29</u>

	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
<u>Three months ended March 31, 2011</u>					
Basic EPS	\$ 566,792	\$ 504,407	807,867	\$ 0.70	\$ 0.62
Bonus to employees	-	-	2,978		
Diluted EPS	\$ 566,792	\$ 504,407	810,845	\$ 0.70	\$ 0.62

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	March 31					
	2010		2011			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Available-for-sale financial assets - current	\$ 2,158,855	\$ 2,158,855	\$ 442,557	\$ 15,050	\$ 442,557	\$ 15,050
Available-for-sale financial assets - noncurrent	313	313	530	18	530	18
Held-to-maturity financial assets - noncurrent	-	-	207,120	7,043	206,746	7,031
Financial assets carried at cost	564,792	564,792	2,511,772	85,416	2,511,772	85,416

b. Derivative financial instruments

	March 31					
	2010		2011			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Financial assets at fair value through profit or loss - current	\$ 68,325	\$ 68,325	\$ -	\$ -	\$ -	\$ -
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	-	143,651	4,885	143,651	4,885

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

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

The financial instruments include neither refundable deposits, guarantee deposits nor long-term bank loans. 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 and held-to-maturity financial assets are based on quoted market prices in an active market, and their fair values can be reliably measured. If the securities do not have market prices, fair value is measured on the basis of financial or other information. The Company uses estimates and assumptions that are consistent with information that market participants would use in setting a price for these securities.

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	March 31			March 31		
	2010	2011	US\$	2010	2011	US\$
	NT\$	NT\$	(Note 3)	NT\$	NT\$	(Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ -	\$ 68,325	\$ -	\$ -
Available-for-sale financial assets - current	2,158,855	442,557	15,050	-	-	-
Available-for-sale financial assets - noncurrent	313	530	18	-	-	-
Held-to-maturity financial assets - noncurrent	-	206,746	7,031	-	-	-
Financial assets carried at cost	-	-	-	564,792	2,511,772	85,416
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	-	-	-	143,651	4,885

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

As of March 31, 2010 and 2011, financial assets exposed to fair value interest rate risk amounted to NT\$0 thousand and NT\$207,120 thousand (US\$7,043 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$66,319,722 thousand and NT\$74,752,030 thousand (US\$2,542,024 thousand), respectively, financial liabilities exposed to fair value interest rate risk amounted to NT\$39,688 thousand and NT\$20,313 thousand (US\$691 thousand), respectively.

Financial Risks

a. Market risk

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

b. Credit risk

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

c. Cash flow risk

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

25. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of HTC's chairperson
VIA Technologies, Inc.	Same chairperson with HTC
Chander Electronics Corp.	Same chairperson with HTC
Way-Lien Technology Inc.	Same chairperson with HTC
CATCHPLAY, INC.	Related party in substance
Employees' Welfare Committee	Employees' Welfare Committee of HTC
HTC Cultural and Educational Foundation	A non-profit organization of which the funds donated from the Company exceeds one third of the non-profit organization's total funds

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	Three Months Ended March 31			
	2010		2011	
	Amount	% to Total Net Purchases	Amount	% to Total Net Purchases
	NT\$		NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$ 28,383	-	\$ 113,719	\$ 3,867
				-

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

Sales and Services Provided

Related Party	Three Months Ended March 31			
	2010		2011	
	Amount	% to Total Revenues	Amount	% to Total Revenues
	NT\$		NT\$	US\$ (Note 3)
Employees' Welfare Committee	\$ 26,991	-	\$ 52,450	\$ 1,784
Other	693	-	1,425	48
	\$ 27,684	-	\$ 53,875	\$ 1,832

The selling prices for products sold to related parties were similar to those for sales to third parties, except those for Employees' Welfare Committee. The collection terms for products sold to related parties were similar to those for sales to third parties.

Accounts Receivable

Related Party	March 31				
	2010		2011		
	Amount	% to Total	Amount		% to Total
NT\$	Accounts Receivable	NT\$	US\$	Accounts Receivable	
			(Note 3)		
VIA Technologies Inc.	\$ 70	-	\$ 383	\$ 13	-
Employees' Welfare Committee	18,082	-	-	-	-
Other	<u>68</u>	<u>-</u>	<u>1,018</u>	<u>35</u>	<u>-</u>
	<u>\$ 18,220</u>	<u>-</u>	<u>\$ 1,401</u>	<u>\$ 48</u>	<u>-</u>

Accounts Payable

Related Party	March 31				
	2010		2011		
	Amount	% to Total	Amount		% to Total
NT\$	Accounts Payable	NT\$	US\$	Accounts Payable	
			(Note 3)		
Chander Electronics Corp.	<u>\$ 33,649</u>	<u>-</u>	<u>\$ 128,179</u>	<u>\$ 4,359</u>	<u>-</u>

Other Receivables

Related Party	March 31				
	2010		2011		
	Amount	% to Total	Amount		% to Total
NT\$	Other Receivable	NT\$	US\$	Other Receivable	
			(Note 3)		
CATCHPLAY, INC.	\$ 74	-	\$ 122	\$ 4	-
Chander Electronics Corp.	<u>30</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 104</u>	<u>-</u>	<u>\$ 122</u>	<u>\$ 4</u>	<u>-</u>

Other Payables to Related Parties

Related Party	March 31				
	2010		2011		
	Amount	% to Total	Amount		% to Total
NT\$	Other Payables	NT\$	US\$	Other Payables	
			(Note 3)		
Chander Electronics Corp.	<u>\$ 33</u>	<u>-</u>	<u>\$ 154</u>	<u>\$ 5</u>	<u>-</u>

Accrued Expenses

Related Party	March 31				% to Total Accrued Expenses
	2010		2011		
	Amount	% to Total Accrued Expenses	Amount	% to Total Accrued Expenses	
	NT\$		NT\$	US\$ (Note 3)	
HTC Cultural and Educational Foundation	\$ 217,800	1	\$ 217,800	\$ 7,406	1
VIA Technologies Inc.	5,126	-	104	4	-
Way-Lien Technology Inc.	<u>200</u>	<u>-</u>	<u>410</u>	<u>14</u>	<u>-</u>
	<u>\$ 223,126</u>	<u>1</u>	<u>\$ 218,314</u>	<u>\$ 7,424</u>	<u>1</u>

Accrued expenses include rental and consulting expenses. Note 17 has more information about HTC Cultural and Educational Foundation.

Service Fees

Related Party	Three Months Ended March 31				% to Total Service Expenses
	2010		2011		
	Amount	% to Total Service Expenses	Amount	% to Total Service Expenses	
	NT\$		NT\$	US\$ (Note 3)	
Way-Lien Technology Inc.	\$ <u>200</u>	<u>-</u>	\$ <u>600</u>	\$ <u>20</u>	<u>-</u>

Leasing - Lessee

Operating expenses - rental expenses

Related Party	Three Months Ended March 31				% to Total Rental Expenses
	2010		2011		
	Amount	% to Total Rental Expenses	Amount	% to Total Rental Expenses	
	NT\$		NT\$	US\$ (Note 3)	
VIA Technologies Inc.	\$ <u>3,120</u>	<u>6</u>	\$ <u>1,302</u>	\$ <u>44</u>	<u>2</u>

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

26. PLEDGED ASSETS

As of March 31, 2010 and 2011, the Company had provided time deposits of NT\$107,385 thousand and NT\$93,347 thousand (US\$3,174 thousand), respectively, as collateral for the secured loans, rental deposits and to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

27. COMMITMENTS AND CONTINGENCIES

As of March 31, 2011, unused letters of credit amounted to USD 1,902 thousand, EUR 789 thousand and JPY 898,928 thousand.

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

28. SIGNIFICANT CONTRACTS

Patent Agreements

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

<u>Contractor</u>	<u>Contract Term</u>	<u>Description</u>
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: a. If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.

(Continued)

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

(Concluded)

29. OTHER EVENTS

Lawsuit

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

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

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

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

Construction for Taipei R&D headquarter

In September 2009, the Company's board of directors resolved to build the Taipei R&D headquarter in Xindian City and the land was bought from Yulon Motors Ltd. The estimated budget for the construction is NT\$3,380,000 thousand for a total floor space of 92 thousand square meters. Construction is scheduled to be completed by August 31, 2011 (Note 15 has more information).

Other

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

	March 31			
	2010		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 1,209,730	31.8000	\$ 2,241,815	29.4065
EUR	204,480	42.7200	503,561	41.7205
GBP	25,128	48.0300	81,626	47.4577
JPY	333,458	0.3410	1,897,701	0.3549
SGD	13,590	22.7200	13,046	23.3367
RMB	112,838	4.6587	581,628	4.4903
Non-monetary items				
USD	2,000	31.8000	61,650	29.4065
<u>Financial liabilities</u>				
Monetary items				
USD	1,060,015	31.8000	2,784,973	29.4065
EUR	207,630	42.7200	488,399	41.7205
GBP	25,691	48.0300	61,773	47.4577
JPY	313,145	0.3410	1,484,725	0.3549
SGD	1,855	22.7200	7,743	23.3367
RMB	35,032	4.6587	345,433	4.4903

30. SEGMENT DISCLOSURES

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

Selected financial information is as follows:

Information about geographical areas

The Company's non-current assets (other than financial instruments, deferred tax assets and post-employment benefit assets) located in an individual foreign country as of March 31, 2010 and 2011, and revenues from external customers attributed to an individual foreign country for the three months ended March 31, 2010 and 2011 were as follows:

	Non-current Assets			Revenues		
	March 31			Three Months Ended March 31		
	2010	2011		2010	2011	
NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)	
Taiwan	\$ 11,073,025	\$ 15,601,815	\$ 530,557	\$ 1,381,299	\$ 4,266,239	\$ 145,078
Country W	64,164	155,997	5,305	18,038,593	52,134,328	1,772,884
Country X	18,365	2,136,311	72,647	2,827,426	8,161,313	277,534
Country Y	120	253	9	1,883,733	5,375,186	182,789
Country Z	1,547,110	2,665,602	90,647	1,755,816	2,948,167	100,256
Others	21,550	528,478	17,971	12,060,247	31,271,367	1,063,417
	<u>\$ 12,724,334</u>	<u>\$ 21,088,456</u>	<u>\$ 717,136</u>	<u>\$ 37,947,114</u>	<u>\$ 104,156,000</u>	<u>\$ 3,541,958</u>

Information about major customers

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

Customer	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
A	\$ 5,701,121	\$ 18,220,448	\$ 619,606
B	7,646,985	16,435,558	558,909
C	<u>3,791,311</u>	<u>12,211,289</u>	<u>415,258</u>
	<u>\$ 17,139,417</u>	<u>\$ 46,867,295</u>	<u>\$ 1,593,773</u>