

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Six Months Ended June 30, 2010 and 2011 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
HTC Corporation

We have audited the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of June 30, 2010 and 2011, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six 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 express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HTC Corporation and subsidiaries as of June 30, 2010 and 2011, and the results of their operations and their cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Our audits also comprehended the translation of the 2011 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

July 20, 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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' 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 auditors' 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

JUNE 30, 2010 and 2011

(In Thousands, Except Par Value)

ASSETS	2010			2011			LIABILITIES AND STOCKHOLDERS' EQUITY	2010			2011		
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents (Notes 2 and 5)	\$ 78,494,772	\$ 115,707,444	\$ 4,017,829				Short-term borrowings (Note 16)	\$ 46,620	\$ -	\$ -			
Financial assets at fair value through profit or loss - current (Notes 2, 6 and 26)	96,994	-	-				Financial liabilities at fair value through profit or loss (Notes 2, 6 and 26)	-	155,880	5,413			
Available-for-sale financial assets - current (Notes 2 and 7)	400,924	733,446	25,468				Notes and accounts payable (Note 27)	38,392,857	77,895,523	2,704,846			
Notes and accounts receivable, net (Notes 2, 8 and 27)	38,982,557	69,994,288	2,430,484				Income tax payable (Notes 2 and 24)	3,223,832	6,503,700	225,835			
Other current financial assets (Notes 9 and 27)	466,583	1,225,807	42,565				Accrued expenses (Notes 17 and 27)	22,306,921	48,289,191	1,676,795			
Inventories (Notes 2 and 10)	11,982,612	30,943,105	1,074,469				Payable for purchase of equipment	214,907	458,207	15,911			
Prepayments (Note 11)	1,818,897	4,520,479	156,969				Long-term bank loans - current portion (Note 19)	16,250	-	-			
Deferred income tax assets (Notes 2 and 24)	936,424	1,895,209	65,809				Other current liabilities (Notes 2, 18 and 27)	27,908,557	43,889,271	1,524,012			
Other current assets	266,842	1,616,281	56,124										
Total current assets	133,446,605	226,636,059	7,869,717				Total current liabilities	92,109,944	177,191,772	6,152,812			
LONG-TERM INVESTMENTS							LONG-TERM LIABILITIES						
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	432	591	21				Long-term bank loans, net of current portion (Note 19)	16,250	-	-			
Held-to-maturity financial assets - noncurrent (Notes 2 and 12)	-	206,285	7,163										
Financial assets carried at cost (Notes 2 and 13)	726,242	2,682,837	93,158				OTHER LIABILITIES						
Total long-term investments	726,674	2,889,713	100,342				Guarantee deposits received	849	18,137	630			
PROPERTIES (Notes 2, 15 and 27)							Total liabilities	92,127,043	177,209,909	6,153,442			
Cost							EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF PARENT (Note 21)						
Land	5,387,718	7,612,730	264,345				Capital stock - NT\$10.00 par value						
Buildings and structures	4,368,630	5,502,869	191,082				Authorized: 1,000,000 thousand shares						
Machinery and equipment	4,769,722	9,164,824	318,239				Issued and outstanding: 773,936 thousand shares in 2010 and 817,653 thousand shares in 2011						
Molding equipment	204,212	172,632	5,994				Common stock	7,739,358	8,176,532	283,922			
Computer equipment	429,109	559,434	19,426				Stock dividends for distribution	437,174	443,989	15,417			
Transportation equipment	4,581	7,741	269				Capital surplus						
Furniture and fixtures	469,291	304,974	10,590				Additional paid-in capital - issuance of shares in excess of par	8,884,135	10,777,623	374,243			
Leased assets	5,961	5,885	204				Long-term equity investments	18,411	18,411	639			
Leasehold improvements	207,861	351,906	12,220				Merger	24,710	24,710	858			
Less: Accumulated depreciation	(5,478,177)	(6,418,058)	(222,861)				Employee stock options	-	1,800,608	62,524			
Prepayments for construction-in-progress and equipment-in-transit	253,615	1,180,618	40,996				Other	1,893,488	4,205,796	146,042			
Properties, net	10,622,523	18,445,555	640,504				Retained earnings						
INTANGIBLE ASSETS (Note 2)							Legal reserve	10,273,674	10,273,674	356,744			
Patents	-	2,254,448	78,284				Special reserve	-	580,856	20,170			
Goodwill	240,320	1,958,475	68,006				Accumulated earnings	26,980,122	54,357,978	1,887,528			
Deferred pension cost	490	416	14				Cumulative translation adjustments (Note 2)	91,983	(439,427)	(15,259)			
Other intangible assets	-	124,348	4,318				Net loss not recognized as pension cost	(34)	(121)	(4)			
Total intangible assets	240,810	4,337,687	150,622				Unrealized (loss) gain on financial instruments (Notes 2 and 26)	(1,539)	666	23			
OTHER ASSETS							Treasury stock (Notes 2 and 22)	-	(6,852,493)	(237,946)			
Refundable deposits	128,512	144,997	5,036				Total equity attributable to stockholders of the parent	56,341,482	83,368,802	2,894,901			
Deferred charges (Note 2)	210,416	379,688	13,184				MINORITY INTEREST IN SUBSIDIARIES	14,206	-	-			
Deferred income tax assets (Notes 2 and 24)	1,280,361	3,537,041	122,820				Total stockholders' equity	56,355,688	83,368,802	2,894,901			
Restricted assets - noncurrent (Notes 2 and 28)	100,015	72,304	2,511										
Others (Notes 2, 11 and 20)	1,726,815	4,135,667	143,607										
Total other assets	3,446,119	8,269,697	287,158										
TOTAL	\$ 148,482,731	\$ 260,578,711	\$ 9,048,343				TOTAL	\$ 148,482,731	\$ 260,578,711	\$ 9,048,343			

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2010 AND 2011 (In Thousands, Except Earnings Per Share)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 27)	\$ 98,907,257	\$ 228,554,605	\$ 7,936,337
COST OF REVENUES (Notes 10, 23 and 27)	<u>69,180,512</u>	<u>162,310,744</u>	<u>5,636,083</u>
GROSS PROFIT	<u>29,726,745</u>	<u>66,243,861</u>	<u>2,300,254</u>
OPERATING EXPENSES (Notes 23 and 27)			
Selling and marketing	7,826,823	19,032,602	660,889
General and administrative	1,707,564	2,735,501	94,987
Research and development	<u>5,174,495</u>	<u>8,761,256</u>	<u>304,226</u>
Total operating expenses	<u>14,708,882</u>	<u>30,529,359</u>	<u>1,060,102</u>
OPERATING INCOME	<u>15,017,863</u>	<u>35,714,502</u>	<u>1,240,152</u>
NONOPERATING INCOME AND GAINS			
Interest income	144,898	308,473	10,711
Gains on sale of investments	2,525	29	1
Exchange gains (Note 2)	43,679	1,060,538	36,826
Valuation gain on financial assets, net (Notes 2 and 6)	96,994	-	-
Other	<u>218,764</u>	<u>114,054</u>	<u>3,960</u>
Total nonoperating income and gains	<u>506,860</u>	<u>1,483,094</u>	<u>51,498</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	917	8,547	297
Losses on disposal of properties	2,622	344	12
Valuation loss on financial instruments, net (Notes 2 and 6)	-	155,880	5,413
Other	<u>15,425</u>	<u>14,722</u>	<u>511</u>
Total nonoperating expenses and losses	<u>18,964</u>	<u>179,493</u>	<u>6,233</u>
INCOME BEFORE INCOME TAX	15,505,759	37,018,103	1,285,417
INCOME TAX (Notes 2 and 24)	<u>(1,888,930)</u>	<u>(4,661,138)</u>	<u>(161,853)</u>
NET INCOME	<u>\$ 13,616,829</u>	<u>\$ 32,356,965</u>	<u>\$ 1,123,564</u> (Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2010 AND 2011 (In Thousands, Except Earnings Per Share)

	2010		2011		
	NT\$		NT\$		US\$ (Note 3)
ATTRIBUTABLE TO					
Stockholders of the parent	\$ 13,636,830		\$ 32,356,965		\$ 1,123,564
Minority interest	<u>(20,001)</u>		<u>-</u>		<u>-</u>
	<u>\$ 13,616,829</u>		<u>\$ 32,356,965</u>		<u>\$ 1,123,564</u>
	2010		2011		
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$
				US\$ (Note 3)	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 25)	<u>\$ 17.94</u>	<u>\$ 15.88</u>	<u>\$ 42.93</u>	<u>\$ 1.49</u>	<u>\$ 38.13</u>
DILUTED EARNINGS PER SHARE (Note 25)	<u>\$ 17.79</u>	<u>\$ 15.74</u>	<u>\$ 42.71</u>	<u>\$ 1.48</u>	<u>\$ 37.93</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2010 AND 2011 (In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus					Retained Earnings			Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized (Loss) Gain on Financial Instruments	Treasury Stock	Minority Interest	Total
	Issued and Outstanding Common Stock	Stock Dividends for Distribution	Issuance of Shares in Excess of Par	Long-term Equity Investments	Merger	Employee Stock Options	Other	Legal Reserve	Special Reserve	Accumulated Earnings						
BALANCE, JANUARY 1, 2010	\$ 7,889,358	\$ -	\$ 9,056,323	\$ 18,411	\$ 25,189	\$ -	\$ -	\$ 10,273,674	\$ -	\$ 38,364,099	\$ 15,088	\$ (34)	\$ (1,658)	\$ -	\$ 34,207	\$ 65,674,657
Appropriation of the 2009 net earnings																
Stock dividends	-	386,968	-	-	-	-	-	-	-	(386,968)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(20,122,332)	-	-	-	-	-	(20,122,332)
Transfer of employee bonuses to common stock	-	50,206	-	-	-	-	1,893,488	-	-	-	-	-	-	-	-	1,943,694
Net income for the six months ended June 30, 2010	-	-	-	-	-	-	-	-	-	13,636,830	-	-	-	-	(20,001)	13,616,829
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	76,895	-	-	-	-	76,895
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	119	-	-	119
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,834,174)	(4,834,174)	
Retirement of treasury stock	(150,000)	-	(172,188)	-	(479)	-	-	-	-	(4,511,507)	-	-	-	4,834,174	-	
BALANCE, JUNE 30, 2010	\$ 7,739,358	\$ 437,174	\$ 8,884,135	\$ 18,411	\$ 24,710	\$ -	\$ 1,893,488	\$ 10,273,674	\$ -	\$ 26,980,122	\$ 91,983	\$ (34)	\$ (1,539)	\$ -	\$ 14,206	\$ 56,355,688
BALANCE, JANUARY 1, 2011	\$ 8,176,532	\$ -	\$ 10,777,623	\$ 18,411	\$ 24,710	\$ -	\$ -	\$ 10,273,674	\$ -	\$ 52,876,892	\$ (579,849)	\$ (121)	\$ (885)	\$ (6,852,493)	\$ -	\$ 74,714,494
Appropriation of the 2010 net earnings																
Stock dividends	-	403,934	-	-	-	-	-	-	-	(403,934)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	580,856	(580,856)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(29,891,089)	-	-	-	-	-	(29,891,089)
Transfer of employee bonuses to common stock	-	40,055	-	-	-	-	4,205,796	-	-	-	-	-	-	-	-	4,245,851
Net income for the six months ended June 30, 2011	-	-	-	-	-	-	-	-	-	32,356,965	-	-	-	-	-	32,356,965
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	140,422	-	-	-	-	140,422
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	1,551	-	-	1,551
Compensation cost recognized for the transfer of treasury stock to employees	-	-	-	-	-	1,800,608	-	-	-	-	-	-	-	-	-	1,800,608
BALANCE, JUNE 30, 2011	\$ 8,176,532	\$ 443,989	\$ 10,777,623	\$ 18,411	\$ 24,710	\$ 1,800,608	\$ 4,205,796	\$ 10,273,674	\$ 580,856	\$ 54,357,978	\$ (439,427)	\$ (121)	\$ 666	\$ (6,852,493)	\$ -	\$ 83,368,802

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

HTC CORPORATION AND SUBSIDIARIES

USD-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2010 AND 2011
(In Thousands of U.S. Dollars)

	Capital Stock		Capital Surplus					Retained Earnings			Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized (Loss) Gain on Financial Instruments	Treasury Stock	Minority Interest	Total
	Issued and Outstanding Common Stock	Stock Dividends for Distribution	Issuance of Shares in Excess of Par	Long-term Equity Investments	Merger	Employee Stock Options	Other	Legal Reserve	Special Reserve	Accumulated Earnings						
BALANCE, JANUARY 1, 2011	\$ 283,922	\$ -	\$ 374,243	\$ 639	\$ 858	\$ -	\$ -	\$ 356,744	\$ -	\$ 1,836,099	\$ (20,135)	\$ (4)	\$ (31)	\$ (237,946)	\$ -	\$ 2,594,389
Appropriation of the 2010 net earnings																
Stock dividends	-	14,026	-	-	-	-	-	-	-	(14,026)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	20,170	(20,170)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(1,037,939)	-	-	-	-	-	(1,037,939)
Transfer of employee bonuses to common stock	-	1,391	-	-	-	-	146,042	-	-	-	-	-	-	-	-	147,433
Net income for the six months ended June 30, 2011	-	-	-	-	-	-	-	-	-	1,123,564	-	-	-	-	-	1,123,564
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	4,876	-	-	-	-	4,876
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	54	-	-	54
Compensation cost recognized for the transfer of treasury stock to employees	-	-	-	-	-	62,524	-	-	-	-	-	-	-	-	-	62,524
BALANCE, JUNE 30, 2011	<u>\$ 283,922</u>	<u>\$ 15,417</u>	<u>\$ 374,243</u>	<u>\$ 639</u>	<u>\$ 858</u>	<u>\$ 62,524</u>	<u>\$ 146,042</u>	<u>\$ 356,744</u>	<u>\$ 20,170</u>	<u>\$ 1,887,528</u>	<u>\$ (15,259)</u>	<u>\$ (4)</u>	<u>\$ 23</u>	<u>\$ (237,946)</u>	<u>\$ -</u>	<u>\$ 2,894,901</u>

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2010 AND 2011 (In Thousands)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 13,616,829	\$ 32,356,965	\$ 1,123,564
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	425,234	648,601	22,522
Amortization	42,238	278,121	9,657
Compensation cost recognized for the transfer of treasury stock to employees	-	1,800,608	62,524
Amortization of premium on financial assets	-	1,661	58
Prepaid pension costs	(10,582)	(14,157)	(492)
Gains on sale of investments, net	(2,525)	(29)	(1)
Losses on disposal of properties	2,622	344	12
Transfer of properties to expenses	736	280	10
Deferred income tax assets	(336,840)	(2,014,566)	(69,954)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(78,862)	641,785	22,286
Notes and accounts receivable	(11,856,948)	(8,258,484)	(286,768)
Inventories	(6,424,899)	(4,529,358)	(157,278)
Prepayments	1,520,739	(1,862,157)	(64,662)
Other current assets	(93,970)	(848,456)	(29,462)
Other current financial assets	(208,109)	(442,267)	(15,357)
Other assets	264,399	(1,478,529)	(51,340)
Notes and accounts payable	13,240,336	13,930,620	483,728
Income tax payable	(1,047,130)	(315,281)	(10,948)
Accrued expenses	7,286,727	19,066,124	662,053
Other current liabilities	1,172,221	2,883,857	100,139
Net cash provided by operating activities	<u>17,512,216</u>	<u>51,845,682</u>	<u>1,800,291</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	(3,109,780)	(490,000)	(17,015)
Proceeds of the sale of available-for-sale financial assets	5,208,775	200,029	6,946
Purchase of financial assets carried at cost	(158,500)	(1,687,797)	(58,607)
Acquisition of a subsidiary	245,000	(1,373,164)	(47,682)
Purchase of properties	(1,028,647)	(4,927,875)	(171,116)
Proceeds of the sale of properties	8	604	21
Decrease in refundable deposits	143	5,863	204
Increase in deferred charges	(3,405)	(164,332)	(5,706)
Decrease in restricted assets	6,237	23,384	812
Acquisition of intangible assets	<u>-</u>	<u>(2,174,400)</u>	<u>(75,504)</u>
Net cash provided by (used in) investing activities	<u>1,159,831</u>	<u>(10,587,688)</u>	<u>(367,647)</u>

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2010 AND 2011 (In Thousands)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowings	\$ (25,706)	\$ -	\$ -
Decrease in long-term bank loans	(14,375)	(24,376)	(846)
Decrease in guarantee deposits received	(361)	4,178	145
Purchase of treasury stock	<u>(4,834,174)</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(4,874,616)</u>	<u>(20,198)</u>	<u>(701)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>59,051</u>	<u>6,787</u>	<u>235</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,856,482	41,244,583	1,432,178
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>64,638,290</u>	<u>74,462,861</u>	<u>2,585,651</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 78,494,772</u>	<u>\$ 115,707,444</u>	<u>\$ 4,017,829</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	\$ 921	\$ 9,765	\$ 339
Income tax	<u>\$ 3,272,900</u>	<u>\$ 6,981,421</u>	<u>\$ 242,423</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of retained earnings to stock dividends for distribution	\$ 386,968	\$ 403,934	\$ 14,026
Transfer of assets leased to others to properties	\$ 48,135	\$ 50,828	\$ 1,765
Retirement of treasury stock	<u>\$ 4,834,174</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of accrued stock bonus to employees to stock dividends for distribution and other capital surplus	<u>\$ 1,943,694</u>	<u>\$ 4,245,851</u>	<u>\$ 147,433</u>
ACQUISITION OF A SUBSIDIARY			
Net cash (inflow) outflow on the acquisition of a subsidiary	\$ (245,000)	\$ 1,374,772	\$ 47,738
Increase in other payable	<u>-</u>	<u>(1,608)</u>	<u>(56)</u>
Cash paid for acquisition of a subsidiary	<u>\$ (245,000)</u>	<u>\$ 1,373,164</u>	<u>\$ 47,682</u>
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 1,089,474	\$ 4,980,436	\$ 172,941
Increase in payables for the purchase of equipment	(61,356)	(16,231)	(564)
Decrease (increase) in lease payable	529	(36,330)	(1,261)
Cash paid for purchase of properties	<u>\$ 1,028,647</u>	<u>\$ 4,927,875</u>	<u>\$ 171,116</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2010 AND 2011 (In Thousands, Unless Stated Otherwise)

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 9,984 and 13,750 employees as of June 30, 2010 and 2011, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (“ROC”). 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 June 30, 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	

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2010	2011	
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	-	-	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
	HTC America Inc.	Marketing, repair and after-sales services	-	-	Incorporated in January 2003, transferred in for the reorganization in November 2009, and transferred out for the reorganization in April 2010
	One & Company Design, Inc.	Design, research and development of application software	-	-	Invested in October 2008, transferred in for the reorganization in November 2009, and transferred out for the reorganization in April 2010
	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

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2010	2011	
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	Marketing, repair and after-sales services	0.67	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	100.00	Incorporated in March 2006, and transferred in for the reorganization in April 2010
	HTC France Corporation	"	100.00	100.00	Incorporated in April 2010
	HTC South Eastern Europe Limited liability Company	"	99.33	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
	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 Communication Canada, Ltd.	Marketing, repair and after-sales services	-	100.00	Incorporated in April 2011

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2010	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	100.00	Incorporated in April 2010
	HTC Luxembourg Sar.l.	Online/download media services	-	100.00	Incorporated in May 2011
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	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	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
	HTC America Content Services, Inc.	Online/download media services	-	100.00	Incorporated in April 2011
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
Properties	-	8,629
Other assets	-	1,130
Current liabilities	-	(142,250)
Net assets	<u>\$ 245,000</u>	<u>\$ 48,076</u>
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>

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.

Foreign Currencies

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

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

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

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

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

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

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

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

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

Accounting Estimates

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

For readers' convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the 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.

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

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

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

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

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

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

Inventories

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

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

Investments Accounted for by the Equity Method

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

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

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

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

Properties

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

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

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

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

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

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

Intangible Assets

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

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

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

Income Tax

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

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

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

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

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

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.

Stock-based Compensation

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

Treasury Stock

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

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

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

Reclassifications

Certain 2010 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the six months ended June 30, 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\$28.7985 to US\$1.00 quoted by the Bank of Taiwan on June 30, 2011. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. ACCOUNTING CHANGES

Financial Instruments

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

Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41 - "Operating Segments." The requirements of the statement are based on the information about the components of the Company that management uses to make decisions about operating matters. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." For this accounting change, the Company restated the segment information as of and for the six months ended June 30, 2010 to conform to the disclosures as of and for the six months ended June 30, 2011.

5. CASH AND CASH EQUIVALENTS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 20,574	\$ 6,288	\$ 218
Cash in banks	6,072,653	12,209,617	423,967
Time deposits	<u>72,401,545</u>	<u>103,491,539</u>	<u>3,593,644</u>
	<u>\$ 78,494,772</u>	<u>\$ 115,707,444</u>	<u>\$ 4,017,829</u>

On time deposits, interest rates ranged from 0.10% to 1.03% and 0.27% to 1.265% as of June 30, 2010 and 2011, respectively.

On preferential deposit, interest rates ranged from 0.08% to 4.20% and 0.15% to 1.02% as of June 30, 2010 and 2011, respectively.

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

Financial assets and liabilities at fair value through profit or loss as of June 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial assets			
Exchange contracts	<u>\$ 96,994</u>	<u>\$ -</u>	<u>\$ -</u>
Derivatives - financial liabilities			
Forward exchange contracts	<u>\$ -</u>	<u>\$ 155,880</u>	<u>\$ 5,413</u>

The Company had derivative transactions during the six months ended June 30, 2010 and 2011 to manage exposures related to exchange rate fluctuations. However, these transactions did not meet the criteria for hedge accounting under Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement." Thus, the Company had no hedge accounting for the six months ended June 30, 2010 and 2011. Outstanding forward exchange contracts as of June 30, 2010 and 2011 were as follows:

Forward Exchange Contracts

	<u>2010</u>			
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2010.07.02-2010.08.25	EUR 168,000
Forward exchange contracts	Sell	GBP/USD	2010.07.28-2010.08.25	GBP 7,700
Forward exchange contracts	Sell	USD/NTD	2010.07.02-2010.07.16	USD 28,000
Forward exchange contracts	Buy	USD/JPY	2010.07.30-2010.08.18	USD 6,499
	<u>2011</u>			
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2011.07.06-2011.08.31	EUR 310,400
Forward exchange contracts	Sell	GBP/USD	2011.07.06-2011.08.24	GBP 40,500
Forward exchange contracts	Sell	USD/NTD	2011.07.06-2011.07.22	USD 70,000

Net gain on derivative financial instruments for the six months ended June 30, 2010 was NT\$663,931 thousand, including realized settlement gain of NT\$566,937 thousand and valuation gain of NT\$96,994 thousand (US\$3,368 thousand). Net loss on derivative financial instruments for the six months ended June 30, 2011 was NT\$948,138 thousand (US\$32,923 thousand), including realized settlement loss of NT\$792,258 thousand (US\$27,510 thousand) and valuation loss of NT\$155,880 thousand (US\$5,413 thousand). Note 26 has more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ 400,924	\$ 733,446	\$ 25,468
Domestic quoted stocks	432	591	21
Less: Current portion	<u>(400,924)</u>	<u>(733,446)</u>	<u>(25,468)</u>
	<u>\$ 432</u>	<u>\$ 591</u>	<u>\$ 21</u>

8. NOTES AND ACCOUNTS RECEIVABLE

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ 16,198	\$ -	\$ -
Accounts receivable	39,975,058	71,062,848	2,467,589
Accounts receivable - related parties	130	69	2
Less: Allowance for doubtful accounts	<u>(1,008,829)</u>	<u>(1,068,629)</u>	<u>(37,107)</u>
	<u>\$ 38,982,557</u>	<u>\$ 69,994,288</u>	<u>\$ 2,430,484</u>

9. OTHER CURRENT FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 412,479	\$ 1,134,767	\$ 39,404
Agency payments	41,022	55,567	1,930
Interest receivable	13,082	32,441	1,126
Others	<u>-</u>	<u>3,032</u>	<u>105</u>
	<u>\$ 466,583</u>	<u>\$ 1,225,807</u>	<u>\$ 42,565</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 June 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 2,391,478	\$ 1,433,296	\$ 49,770
Work-in-process	2,017,217	9,942,973	345,260
Raw materials	7,515,254	17,498,798	607,629
Goods in transit	<u>58,663</u>	<u>2,068,038</u>	<u>71,810</u>
	<u>\$ 11,982,612</u>	<u>\$ 30,943,105</u>	<u>\$ 1,074,469</u>

As of June 30, 2010 and 2011, the allowance for inventory devaluation was NT\$2,552,346 thousand and NT\$4,389,908 thousand (US\$152,435 thousand), respectively.

The write-down of inventories to their net realizable value amounting to NT\$87,801 thousand and NT\$1,563,560 thousand (US\$54,293 thousand) were recognized as cost of sales for the six months ended June 30, 2010 and 2011, respectively.

11. PREPAYMENTS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 1,486,505	\$ 2,458,427	\$ 85,366
Prepayments to suppliers	9,231	1,258,757	43,709
Marketing	76,908	203,491	7,066
Net input VAT	44,969	199,449	6,926
Software and hardware maintenance	95,526	127,254	4,419
Molding equipment	12,836	117,202	4,070
Rental	17,387	30,379	1,055
Insurance	9,429	9,161	318
Others	<u>66,106</u>	<u>116,359</u>	<u>4,040</u>
	<u>\$ 1,818,897</u>	<u>\$ 4,520,479</u>	<u>\$ 156,969</u>

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of June 30, 2010 and 2011, noncurrent prepayments of NT\$1,578,771 thousand and NT\$3,360,537 thousand (US\$116,692 thousand), respectively, had been classified as other assets (Note 30 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 June 30, 2011, noncurrent prepayments of NT\$602,148 thousand (US\$20,909 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 June 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Corporate bonds	\$ -	\$ 206,285	\$ 7,163

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 June 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 17,362
BandRich Inc.	-	15,861	551
Answer Online, Inc.	1,192	-	-
SoundHound Inc.	64,300	57,597	2,000
GSUO Inc.	160,750	143,992	5,000
NETQIN MOBILE Inc.	-	71,996	2,500
Luminous Optical Technology Co., Ltd.	-	183,000	6,354
OnLive, Inc.	-	1,151,940	40,000
KKBOX Inc.	-	287,985	10,000
Felicis Ventures II LP	-	43,198	1,500
WI Harper Fund VII	-	25,919	900
TransLink Capital Partners II, L.P.	-	43,198	1,500
Shanghai F-road Commercial Co., Ltd.	-	158,151	5,491
	<u>\$ 726,242</u>	<u>\$ 2,682,837</u>	<u>\$ 93,158</u>

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

In 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 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 July 2009, the Company acquired 4.37% equity interest in SoundHound Inc. (formerly Melodis Corporation until May 2010) for US\$2,000 thousand (NT\$57,597 thousand).

In May 2010, the Company acquired 11.11% equity interest in GSUO Inc. for US\$5,000 thousand (NT\$143,992 thousand).

In December 2010, the Company acquired 1.60% equity interest in NETQIN MOBILE Inc. for US\$2,500 thousand (NT\$71,996 thousand).

In December 2010, the Company acquired 10.02% equity interest in Luminous Optical Technology Co., Ltd. for NT\$183,000 thousand.

In February 2011, the Company acquired 4.43% equity interest in OnLive, Inc. for US\$40,000 thousand (NT\$1,151,940 thousand).

In March 2011, the Company acquired 11.10% equity interest in KKBOX Inc. for US\$10,000 thousand (NT\$287,985 thousand).

In July 2010 and February 2011, the Company invested Felicis Ventures II LP for US\$750 thousand and US\$750 thousand (NT\$21,599 thousand), respectively. As of June 30, 2011, the Company's investment amounted to US\$1,500 thousand (NT\$43,198 thousand).

In August 2010, the Company invested WI Harper Fund VII for US\$900 thousand (NT\$25,919 thousand).

In June 2011, the Company acquired 23.86% equity interest in TransLink Capital Partners II, L.P. for US\$1,500 thousand (NT\$43,198 thousand).

In May 2011, the Company acquired 17.73% equity interest in Shanghai F-road Commercial Co., Ltd. for US\$5,500 thousand (NT\$158,151 thousand).

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

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of June 30, 2010 and 2011 were as follows:

	2010		2011				Ownership Percentage
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
			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 June 30, 2010 and 2011 were as follows:

	2010	2011			
	Carrying Value NT\$	Cost NT\$	Accumulated Depreciation NT\$	Carrying Value NT\$ US\$ (Note 3)	
Land	\$ 5,387,718	\$ 7,612,730	\$ -	\$ 7,612,730	\$ 264,345
Buildings and structures	3,626,353	5,502,869	912,412	4,590,457	159,399
Machinery and equipment	934,039	9,164,824	4,657,570	4,507,254	156,509
Molding equipment	12,685	172,632	172,632	-	-
Computer equipment	129,270	559,434	349,883	209,551	7,277
Transportation equipment	1,170	7,741	3,245	4,496	156
Furniture and fixtures	187,763	304,974	184,962	120,012	4,167
Leased assets	2,014	5,885	5,098	787	27
Leasehold improvements	87,896	351,906	132,256	219,650	7,628
Prepayments for construction-in-progress and equipment-in-transit	253,615	1,180,618	-	1,180,618	40,996
	\$ 10,622,523	\$ 24,863,613	\$ 6,418,058	\$ 18,445,555	\$ 640,504

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

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

In April 2011, the Company bought land for NT\$1,770,000 thousand (US\$61,462 thousand) from an unrelated party to build up a complete HTC technology park and meet the future capacity expansion requirements.

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

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

16. SHORT-TERM BORROWINGS

As of June 30, 2011, the Company had the following short-term borrowings:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Working capital loans, annual interest at 1.72%-3.05%	\$ 46,620	\$ -	\$ -

As of June 30, 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 six months ended June 30, 2011.

17. ACCRUED EXPENSES

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 11,375,111	\$ 29,158,509	\$ 1,012,501
Bonus to employees	5,834,668	8,107,066	281,510
Salaries and bonuses	1,824,957	4,580,334	159,048
Services	1,009,268	1,460,824	50,726
Freight expenses	748,001	1,610,567	55,925
Research materials	430,012	1,706,805	59,267
Donation	367,800	437,800	15,202
Insurance	89,863	204,074	7,086
Meals and welfare	135,375	196,249	6,815
Repairs and maintenance	96,293	157,391	5,465
Pension cost	54,261	110,790	3,847
Travel	31,988	82,526	2,866
Others	309,324	476,256	16,537
	<u>\$ 22,306,921</u>	<u>\$ 48,289,191</u>	<u>\$ 1,676,795</u>

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Accrued bonus to employees for current year	\$ 2,919,126	\$ 3,861,213	\$ 134,077
Cash bonuses approved by the stockholders for prior years	<u>2,915,542</u>	<u>4,245,853</u>	<u>147,433</u>
	<u>\$ 5,834,668</u>	<u>\$ 8,107,066</u>	<u>\$ 281,510</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 June 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash dividend payable	\$ 20,122,332	\$ 29,891,089	\$ 1,037,939
Reserve for warranty expenses	6,644,100	12,415,994	431,133
Other payable	290,076	368,571	12,798
Agency receipts	271,647	338,312	11,748
Advance receipts	304,037	346,725	12,040
Others	<u>276,365</u>	<u>528,580</u>	<u>18,354</u>
	<u>\$ 27,908,557</u>	<u>\$ 43,889,271</u>	<u>\$ 1,524,012</u>

In June 2010 and June 2011, the stockholders approved the appropriation of cash dividends of NT\$20,122,332 thousand and NT\$29,891,089 thousand (US\$1,037,939 thousand), respectively. The amounts to be distributed were temporarily accounted for as "cash dividend payable" as of June 30, 2010 and 2011.

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 2010, 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\$42,532 thousand (US\$1,477 thousand) had not been paid as of June 30, 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\$109,853 thousand (US\$3,815 thousand) had not been paid as of June 30, 2011.

19. LONG-TERM BANK LOANS

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Secured loans			
NT\$65,000 thousand, repayable from July 2008			
in 16 quarterly installments; 1% annual			
interest	\$ 32,500	\$ -	\$ -
Less: Current portion	<u>(16,250)</u>	<u>-</u>	<u>-</u>
	<u>\$ 16,250</u>	<u>\$ -</u>	<u>\$ -</u>

20. PENSION PLAN

The Labor Pension Act (the “Act”), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the “Law”) before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company’s required monthly contributions to the employees’ individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions for the six months ended June 30, 2010, and 2011 were NT\$97,333 thousand, and NT\$154,141 thousand (US\$5,353 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company’s contributions to a pension fund is 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee’s name. The pension fund balances were NT\$433,588 thousand and NT\$464,957 thousand (US\$16,145 thousand) as of June 30, 2010 and 2011, respectively.

H.T.C. (B.V.I.) Corp., HTC HK, Limited, and High Tech Computer Asia Pacific Pte. Ltd. have no pension plans.

Under their respective local government regulations, other subsidiaries have defined contribution pension plans covering all eligible employees. The pension fund contributions for the six months ended June 30, 2010 and 2011 were NT\$25,956 thousand and NT\$76,888 thousand (US\$2,670 thousand).

The movement in prepaid pension cost under the defined benefit plans for the six months ended June 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Balance, beginning of period	\$ 137,462	\$ 158,825	\$ 5,515
Contributions	(1,667)	(2,169)	(75)
Payments	<u>12,249</u>	<u>16,326</u>	<u>566</u>
Balance, end of period	<u>\$ 148,044</u>	<u>\$ 172,982</u>	<u>\$ 6,006</u>

21. 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. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily. As a result, the amount of the Company's outstanding common stock as of June 30, 2010 increased to NT\$7,739,358 thousand, divided into 773,936 thousand common shares at NT\$10.00 par value.

In June 2011, the stockholders approved the transfer of retained earnings amounting to NT\$403,934 thousand (US\$14,026 thousand) and employee bonuses amounting to NT\$40,055 thousand (US\$1,391 thousand) to capital stock. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily. As a result, the amount of the Company's outstanding common stock as of June 30, 2011 increased to NT\$8,176,532 thousand (US\$283,922 thousand), divided into 817,653 thousand common shares at NT\$10.00 (US\$0.35) par value.

Global Depositary Receipts

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

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

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

Taking into account the effect of stock dividends, the GDRs increased to 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 June 30, 2011, there were 4,407.3 thousand units of GDRs redeemed, representing 17,629.3 thousand common shares, and the outstanding GDRs represented 17,589.8 thousand common shares or 2.18% 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 June 30, 2011 was NT\$10,777,623 thousand (US\$374,243 thousand).

As of June 30, 2010 and 2011, the capital surplus from long-term equity-method investments were both NT\$18,411 thousand (US\$639 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 June 30, 2011 was NT\$24,710 thousand (US\$858 thousand).

On June 20, 2011, the Company's board of directors resolved to transfer 6,000 thousand treasury stocks to employees. The compensation cost recognized for the transfer of treasury stock to employees was NT\$1,800,608 thousand (US\$62,524 thousand). Because the registration of the issuance of shares had not been completed and payment had not been made as of June 30, 2011, it was temporarily accounted for as "capital surplus - employee stock options." Note 22 has more information.

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. The difference between par value and fair value of NT\$1,893,488 thousand was accounted for as capital surplus-other temporarily.

The bonus to employees of NT\$8,491,704 thousand for 2010 were approved in the stockholders' meeting in June 2011. Of the approved amount, NT\$4,245,852 thousand (US\$147,433 thousand), representing 4,006 thousand common shares which was determined by fair value, would be distributed by common stock (The amount was NT\$4,245,851 thousand after taking into account the effect that the amount less than one share will be distributed in the form of cash). The difference between par value and fair value of NT\$4,205,796 thousand (US\$146,042 thousand) was accounted for as capital surplus-other temporarily.

Appropriation of Retained Earnings and Dividend Policy

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

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

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

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

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

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

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

22. 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 six 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>Six months ended June 30, 2010</u>				
To maintain the Company's credibility and shareholders' interest	-	15,000	15,000	-
<u>Six months ended June 30, 2011</u>				
For transferring shares to the Company's employees	9,786	-	-	9,786

The Company's board of directors resolved to transfer treasury stocks to employees. In 2011, the number of shares for transfer to employees was 6,000 thousand with average repurchase price per share. The compensation cost recognized for the transfer of treasury stock to employees was NT\$1,800,608 thousand (US\$62,524 thousand). The grant date was June 20, 2011 and the payment period was from June 20, 2011 to August 9, 2011.

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

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

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.

23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function Expense Item	2010			2011					
	NT\$			NT\$			US\$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	\$ 1,850,141	\$ 5,938,588	\$ 7,788,729	\$ 3,293,738	\$11,315,925	\$14,609,663	\$ 114,372	\$ 392,934	\$ 507,306
Salary	1,581,963	5,461,931	7,043,894	2,742,077	10,594,892	13,336,969	95,216	367,897	463,113
Insurance	93,161	174,578	267,739	166,483	296,806	463,289	5,781	10,306	16,087
Pension cost	36,345	88,611	124,956	95,839	137,359	233,198	3,328	4,770	8,098
Other	138,672	213,468	352,140	289,339	286,868	576,207	10,047	9,961	20,008
Depreciation	204,732	220,181	424,913	408,215	240,386	648,601	14,175	8,347	22,522
Amortization	15,713	26,525	42,238	137,969	140,152	278,121	4,791	4,866	9,657

24. 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 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., HTC Investment Corporation and HTC I Investment Corporation through 2009 had been examined by the tax authorities.

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

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

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010. In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces 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 six months ended June 30, 2010 and 2011, income tax payable, income tax receivables and deferred tax assets (liabilities) as of June 30, 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	\$ 1,768,889	\$ 2,999,008	\$ -	\$ 2,156,011
BandRich Inc.	363	-	-	(363)
Communication Global Certification Inc.	-	-	36	1,576
HTC Investment Corporation	50	11	225	-
HTC I Investment Corporation	76	30	-	-
Huada Digital Corporation	39	5	-	-
High Tech Computer Asia Pacific Pte. Ltd.	641	501	-	37

(Continued)

2010

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT\$		NT\$		NT\$		NT\$	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
HTC America Inc.	\$ 44,820		\$ 85,906		\$ 64,622		\$ 46,650	
HTC EUROPE CO., LTD.	39,415		89,698		-		-	
Exedea Inc.	21,395		12,529		-		2,765	
HTC NIPPON Corporation	1,191		1,138		-		-	
HTC BRASIL	(5,659)		-		6,127		6,331	
One & Company Design, Inc.	433		514		-		(4,115)	
HTC Corporation (Shanghai WGQ)	557		297		259		-	
HTC Belgium BAVA/SPRL	7,821		19,596		-		254	
High Tech Computer (H.K.) Limited	465		468		-		-	
HTC (Australia and New Zealand) Pty. Ltd.	1,872		4,312		-		5	
HTC India Private Limited	893		609		-		(57)	
HTC (Thailand) Limited	548		556		-		-	
HTC Electronics (Shanghai) Co., Ltd.	4,679		7,646		-		7,370	
HTC Malaysia Sdn. Bhd.	144		727		-		321	
HTC Innovation Limited	292		275		-		-	
HTC South Eastern Europe Limited liability Company	6		6		-		-	
	<u>\$ 1,888,930</u>		<u>\$ 3,223,832</u>		<u>\$ 71,269</u>		<u>\$ 2,216,785</u>	
							(Concluded)	

2011

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT\$		NT\$		NT\$		NT\$	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
HTC Corporation Communication Global Certification Inc.	\$ 4077,511	\$ 141,588	\$ 5,922,228	\$ 205,644	\$ -	\$ -	\$ 5,105,628	\$ 177,288
HTC Investment Corporation	4,119	143	4,213	146	-	-	1,959	68
HTC I Investment Corporation	88	3	32	1	-	-	-	-
Huada Digital Corporation	69	2	18	1	-	-	-	-
High Tech Computer Asia Pacific Pte. Ltd.	105	4	36	1	-	-	-	-
HTC EUROPE CO., LTD.	6,858	238	4,604	160	-	-	38	1
Exedea Inc.	88,839	3,085	133,990	4,653	-	-	8,822	306
HTC NIPPON Corporation	670	23	-	-	1,473	51	-	-
HTC BRASIL	2,050	71	1,241	43	-	-	-	-
One & Company Design, Inc.	-	-	-	--	10	-	2,735	95
HTC Communication Co., Ltd.	3,082	107	-	-	5,915	206	3,801	132
HTC Corporation (Shanghai WGQ)	(17,618)	(612)	198,854	6,905	-	-	258,969	8,992
HTC Belgium BAVA/SPRL	1,263	44	473	16	-	-	-	-
HTC HK, Limited	399	14	10,130	352	-	-	-	-
High Tech Computer (H.K.) Limited	(54)	(2)	3,166	110	-	-	-	-
	2,576	89	-	-	-	-	-	-
							(Continued)	

2011

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
HTC (Australia and New Zealand) Pty. Ltd.	\$ 5,438	\$ 189	\$ 9,037	\$ 314	\$ -	\$ -	\$ (2,892)	\$ (100)
HTC India Private Limited	3,961	137	-	-	1,793	62	-	-
HTC (Thailand) Limited	1,295	45	1,274	44	-	-	-	-
HTC Electronics (Shanghai) Co., Ltd.	98,298	3,413	101,821	3,536	-	-	65,194	2,264
HTC Netherlands B.V.	871	30	1,079	37	-	-	-	-
HTC FRANCE CORPORATION	(356)	(12)	790	27	-	-	(84,403)	(2,931)
HTC Nordic ApS.	3,387	118	3,601	125	-	-	(85)	(3)
HTC Italia SRL	3,631	126	-	-	-	-	-	-
HTC Germany GmbH.	4,028	140	1,953	68	-	-	-	-
HTC Iberia S.L.	3,081	107	3,480	121	-	-	-	-
HTC Poland sp. z o.o.	17	1	-	-	-	-	2,126	74
ABAXIA SAS	6,300	219	-	-	-	-	-	-
Saffron Digital Inc.	147	5	8,949	311	-	-	(122)	(4)
HTC America Inc.	344,490	11,962	76,189	2,646	-	-	56,589	1,965
HTC America Innovation Inc.	13,598	472	14,920	518	-	-	13,622	473
HTC Malaysia Sdn. Bhd.	1,010	35	182	6	-	-	269	9
HTC Innovation Limited	1,593	55	1,058	37	-	-	-	-
HTC South Eastern Europe Limited liability Company	392	14	382	13	-	-	-	-
	<u>\$ 4,661,138</u>	<u>\$ 161,853</u>	<u>\$ 6,503,700</u>	<u>\$ 225,835</u>	<u>\$ 9,191</u>	<u>\$ 319</u>	<u>\$ 5,432,250</u>	<u>\$ 188,629</u>

(Concluded)

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Capitalized expense	\$ 86,471	\$ 63,347	\$ 2,200
Provision for loss on decline in value of inventory	424,369	741,773	25,757
Unrealized reserve for warranty expense	1,129,782	2,075,178	72,059
Unrealized royalties	1,783,026	3,930,929	136,498
Unrealized marketing expenses	1,885,181	4,717,079	163,796
Unrealized contingent losses of purchase orders	124,427	374,404	13,001
Unrealized valuation loss on financial instruments	-	26,500	920
Unrealized bad-debt expenses	105,542	63,783	2,215
Unrealized research materials	-	105,513	3,664
Unrealized sales allowance	-	254,031	8,821
Unrealized salaries and welfare	-	242,770	8,430
Other	28,010	107,866	3,744
Prior years' loss carryforwards	51,694	1,598	55
Tax credit carryforwards	<u>3,240,254</u>	<u>3,144,749</u>	<u>109,198</u>
Total deferred tax assets	8,858,756	15,849,520	550,358
Less: Valuation allowance	<u>(6,540,160)</u>	<u>(10,171,522)</u>	<u>(353,196)</u>
Total deferred tax assets, net	2,318,596	5,677,998	197,162

(Continued)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Deferred tax liability			
Unrealized pension cost	\$ (25,257)	\$ (29,472)	\$ (1,023)
Unrealized valuation gain on financial instruments	(16,489)	-	-
Unrealized foreign currency exchange gains, net	<u>(60,065)</u>	<u>(216,276)</u>	<u>(7,510)</u>
	2,216,785	5,432,250	188,629
Less: Current portion	<u>(936,424)</u>	<u>(1,895,209)</u>	<u>(65,809)</u>
Deferred tax assets - noncurrent	<u>\$ 1,280,361</u>	<u>\$ 3,537,041</u>	<u>\$ 122,820</u> (Concluded)

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	<u>2010</u>	<u>2011</u>	
		NT\$	NT\$	US\$ (Note 3)
2006	2006-2010	\$ 15,475	\$ -	\$ -
2007	2007-2011	20,089	680	23
2008	2008-2012	875,481	833,163	28,931
2009	2009-2013	<u>2,329,209</u>	<u>2,310,906</u>	<u>80,244</u>
		<u>\$ 3,240,254</u>	<u>\$ 3,144,749</u>	<u>\$ 109,198</u>

Detail of the loss carryforwards are as follows:

Year of Occurrence	Validity Period	<u>2010</u>	<u>2011</u>	
		NT\$	NT\$	US\$ (Note 3)
2006	2007-2016	\$ 33,812	\$ -	\$ -
2007	2008-2017	48,885	-	-
2008	2009-2018	102,497	-	-
2009	2010-2019	16,519	-	-
2010	2011-2020	<u>57,385</u>	<u>-</u>	<u>-</u>
		<u>\$ 259,098</u>	<u>\$ -</u>	<u>\$ -</u>

The loss carryforwards of HTC Electronics (Shanghai) Co., Ltd. that gave rise to deferred tax assets in People's Republic of China were NT\$3,942 thousand as of June 30, 2010, 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\$3,705 thousand and NT\$1,598 thousand (US\$55 thousand) as of June 30, 2010 and 2011. 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, based on the Company's financial forecasts.

The income tax for the six months ended June 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 2,209,460	\$ 6,637,613	\$ 230,485
Increase in deferred income tax assets	(336,840)	(2,014,566)	(69,954)
Underestimation of prior year's income tax	<u>16,310</u>	<u>38,091</u>	<u>1,322</u>
Income tax	<u>\$ 1,888,930</u>	<u>\$ 4,661,138</u>	<u>\$ 161,853</u>

The integrated income tax information is as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account	\$ 1,862,761	\$ 3,925,884	\$ 136,323
Unappropriated earnings from 1998	26,980,122	54,357,978	1,887,528
Expected creditable ratio (including income tax payable)	14.39%	17.81%	17.68%

25. 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 858,600 thousand shares and 848,615 thousand shares for the six months ended June 30, 2010 and 2011, respectively. EPS for the six months ended June 30, 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 six months ended June 30, 2010 and 2011 was as follows:

	2010				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 15,405,719	\$ 13,636,830	858,600	<u>\$ 17.94</u>	<u>\$ 15.88</u>
Bonus to employees	-	-	<u>7,586</u>		
Diluted EPS	<u>\$ 15,405,719</u>	<u>\$ 13,636,830</u>	<u>866,186</u>	<u>\$ 17.79</u>	<u>\$ 15.74</u>
	2011				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 36,434,476	\$ 32,356,965	848,615	<u>\$ 42.93</u>	<u>\$ 38.13</u>
Bonus to employees	-	-	<u>4,363</u>		
Diluted EPS	<u>\$ 36,434,476</u>	<u>\$ 32,356,965</u>	<u>852,978</u>	<u>\$ 42.71</u>	<u>\$ 37.93</u>
	2011				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
Basic EPS	\$ 1,265,152	\$ 1,123,564	848,615	<u>\$ 1.49</u>	<u>\$ 1.32</u>
Bonus to employees	-	-	<u>4,363</u>		
Diluted EPS	<u>\$ 1,265,152</u>	<u>\$ 1,123,564</u>	<u>852,978</u>	<u>\$ 1.48</u>	<u>\$ 1.32</u>

26. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	June 30					
	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	\$ 400,924	\$ 400,924	\$ 733,446	\$ 25,468	\$ 733,446	\$ 25,468
Available-for-sale financial assets - noncurrent	432	432	591	21	591	21
Held-to-maturity financial assets - noncurrent	-	-	206,285	7,163	205,457	7,134
Financial assets carried at cost	726,242	726,242	2,682,837	93,159	2,682,837	93,159

b. Derivative financial instruments

	June 30					
	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	\$ 96,994	\$ 96,994	\$ -	\$ -	\$ -	\$ -
Liabilities						
Financial liabilities at fair value through profit or loss	-	-	155,880	5,413	155,880	5,413

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 neither include 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		
	June 30			June 30		
	2010	2011		2010	2011	
NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)	
Assets						
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ 96,994	\$ -	\$ -
Available-for-sale financial assets - current	400,924	733,446	25,468	-	-	-
Available-for-sale financial assets - noncurrent	432	591	21	-	-	-
Held-to-maturity financial assets - noncurrent	-	205,457	7,134	-	-	-
Financial assets carried at cost	-	-	-	726,242	2,682,837	93,159
Liabilities						
Financial liabilities at fair value through profit or loss	-	-	-	-	155,880	5,413

There was no loss or gain recognized for the six months ended June 30, 2010 and 2011 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized gains of NT\$119 thousand and NT\$1,551 (US\$54 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2010 and 2011, respectively.

As of June 30, 2010 and 2011, financial assets exposed to fair value interest rate risk and financial assets exposed to cash flow interest rate risk amounted were NT\$0 and NT\$206,285 (US\$7,163 thousand) and NT\$72,501,560 and NT\$103,563,843 (US\$3,596,154 thousand), respectively; financial liabilities exposed to fair value interest rate risk amounted to NT\$32,500 thousand and NT\$0 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.

27. 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	Six Months Ended June 30			
	2010		2011	
	Amount NT\$	% to Total Net Purchases	Amount NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$ 95,243	---	\$ 172,560	\$ 5,992

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

Sales and Services Provided

Related Party	Six Months Ended June 30			
	2010		2011	
	Amount NT\$	% to Total Revenues	Amount NT\$	US\$ (Note 3)
Employees' Welfare Committee	\$ 34,076	-	\$ 52,471	\$ 1,822
VIA Technologies, Inc.	241	-	500	18
Others	<u>1,040</u>	<u>-</u>	<u>1,074</u>	<u>37</u>
	<u>\$ 35,357</u>	<u>-</u>	<u>\$ 54,045</u>	<u>\$ 1,877</u>

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.

Notes and Accounts Receivable

Related Party	2010		2011		% to Total Notes and Accounts Receivable
	Amount	% to Total Notes and Accounts Receivable	June 30		
			NT\$	US\$ (Note 3)	
VIA Technologies, Inc.	\$ 60	-	\$ 16	\$ 1	-
Others	<u>70</u>	<u>-</u>	<u>53</u>	<u>2</u>	<u>-</u>
	<u>\$ 130</u>	<u>-</u>	<u>\$ 69</u>	<u>\$ 3</u>	<u>-</u>

Notes and Accounts Payable

Related Party	2010		2011		% to Total Notes and Accounts Payable
	Amount	% to Total Notes and Accounts Payable	June 30		
			NT\$	US\$ (Note 3)	
Chander Electronics Corp.	<u>\$ 80,379</u>	<u>-</u>	<u>\$ 108,377</u>	<u>\$ 3,763</u>	<u>-</u>

Other Receivable

Related Party	2010		2011		% to Total Other Receivable
	Amount	% to Total Other Receivable	June 30		
			NT\$	US\$ (Note 3)	
CATCHPLAY, INC.	\$ 74	-	\$ 137	\$ 5	-
Chander Electronics Corp.	<u>30</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 104</u>	<u>-</u>	<u>\$ 137</u>	<u>\$ 5</u>	<u>-</u>

Accrued Expenses

Related Party	June 30				% to Total Other Payables
	2010		2011		
	Amount	% to Total Other Payables	Amount	US\$	
			(Note 3)		
	NT\$		NT\$		
HTC Cultural and Educational Foundation	\$ 217,800	1	\$ 217,800	\$ 7,563	-
Way-Lien Technology Inc.	<u>200</u>	<u>-</u>	<u>600</u>	<u>21</u>	<u>-</u>
	<u>\$ 218,000</u>	<u>1</u>	<u>\$ 218,400</u>	<u>\$ 7,584</u>	<u>-</u>

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

Other Payables to Related Parties

Related Party	June 30				% to Total Other Payables
	2010		2011		
	Amount	% to Total Other Payables	Amount	US\$	
			(Note 3)		
	NT\$		NT\$		
Chander Electronics Corp.	<u>\$ 14</u>	<u>-</u>	<u>\$ 198</u>	<u>\$ 7</u>	<u>-</u>

Service Fees

Related Party	Six Months Ended June 30				% to Warranty Expenses
	2010		2011		
	Amount	% to Warranty Expenses	Amount	US\$	
			(Note 3)		
	NT\$	(Note 3)	NT\$	US\$	
Way-Lien Technology Inc.	<u>\$ 800</u>	<u>\$ -</u>	<u>\$ 1,200</u>	<u>\$ 42</u>	<u>-</u>

Leasing - Lessee

Operating expenses - rental expenses

Related Party	Six Months Ended June 30				% to Total Rental Expenses
	2010		2011		
	Amount	% to Total Rental Expenses	Amount	US\$	
			(Note 3)		
	NT\$		NT\$		
VIA Technologies Inc.	<u>\$ 6,157</u>	<u>21</u>	<u>\$ 2,604</u>	<u>\$ 90</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.

Property Transaction

The company bought accessory equipments of buildings from Chander Electronics Corp. for NT\$6,555 thousand (US\$228 thousand) for the six months ended June 30, 2011.

28. PLEDGED ASSETS

As of June 30, 2010 and 2011, the Company had provided time deposits of NT\$100,015 thousand and NT\$72,304 thousand (US\$2,510 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.

29. COMMITMENTS AND CONTINGENCIES

As of June 30, 2011, unused letters of credit amounted to EUR164 thousand and JPY111,923 thousand.

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

30. SIGNIFICANT CONTRACTS

Patent Agreement

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

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

(Continued)

Contractor	Contract Term	Description
	b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 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 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)

31. OTHER EVENT

Lawsuit

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

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

In October, 2010, IPCom filed a new complaint against the Company alleging patent infringement of patent #114 (EP 1226692B1) in District Court of Dusseldorf. The Company has previously filed patent invalidity action against patent #114 (EP 1226692B1) in EPO and patent #114 (EP 1226692B1) has already been revoked by EPO and IPCom is appealing EPO’s decision. In December 2010, the #100 (EP 186189B1) was upheld in the Federal Patents Court; however, the chances of IPCom proving infringement are very low because of the revised very restricted claim. The risk of this newly asserted patent is very low.

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

As of July 20, 2011, the date of the accompanying independent accountants’ audit report, there had been no critical hearing nor had a court decision been made, except for the above.

- b. In March 2010, Apple Inc. (“Apple”) filed a lawsuit against the Company, H.T.C. (B.V.I.) Corp., HTC America, Inc. and Exedea, Inc. (“the Company”) concurrently with the U.S. International Trade Commission (“ITC”) and U.S. District Court in Delaware (“Delaware court”), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing to and selling devices in the United States and damage compensation, respectively. 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.

On July 15, 2011, the Company received the notice of ITC judge’s initial determination in the Apple vs. HTC case, ITC No. 337-TA-710. Apple originally asserted 10 of its patents against the Company in March 2010, and the judge ruled that the Company infringed on 2 patents. As of July 20, 2011, the date of the accompanying independent accountants’ audit report, the Company does not yet have access to the judge’s full opinion and analysis to determine the details of his findings. The Company will discuss with outside counsels for subsequent ITC appeals process and are fully prepared to defend ourselves using all means possible. As for the investigation filed by HTC against Apple (ITC No. 337-TA-721), the administrative law judge of ITC will issue his initial determination on September 6, 2011.

On July 8, 2011, Apple filed another lawsuit against the Company with the ITC, alleging that the Company infringed five of its patents. As of July 20, 2011, the date of the accompanying independent auditors' report, there had been no official notice received by the Company.

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

In May 2010, Flashpoint filed an ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. The ITC Judge will issue his Initial Determination on July 29, 2011 and the Final Determination is scheduled to be issued by the committee on November 15, 2011; such Final Determination will be confirmed by U.S. President and becomes effective on January 13, 2012.

- d. The Company had examined their circumstances and related information, including past experiences, expert opinions, results of the evaluation of contingencies and estimation of the degree of actual occurrence, and concluded that the amounts of contingent assets or liabilities were appropriately accounted.

Construction for Taipei R&D Headquarters

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

Acquisition of Patents Owned by S3 Graphics Co, Ltd.

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

Acquisition of Treasury Stock

On July 16, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand and 10,000 thousand Company shares from the open market for transferring shares to the Company's employees and maintaining the Company's credibility and shareholders' interest, respectively. The repurchase periods were from July 18, 2011 to August 17, 2011 and from August 18, 2011 to September 17, 2011, respectively, with the repurchase price ranging from NT\$900 to NT\$1,000 per share. If the Company's share price was lower than this price range, the company might continue to buy back its shares. As of July 20, 2011, the date of the accompanying independent auditors' report, no treasury stock purchase had been made.

Other

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

	June 30			
	2010		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 1,332,320	32.15	\$ 2,522,409	28.7985
EUR	283,965	39.32	607,071	41.7276
GBP	32,798	48.4	72,581	46.2922
RMB	305,841	4.778	810,859	4.4557
Investments accounted for by the equity method				
USD	7,000	32.15	68,900	28.7985
<u>Financial liabilities</u>				
Monetary items				
USD	1,536,076	32.15	3,364,936	28.7985
EUR	271,762	39.32	590,023	41.7276
GBP	52,290	48.4	90,520	46.2922
RMB	80,126	4.778	507,608	4.4557

32. SEGMENT DISCLOSURES

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

Selected financial information was as follows:

Information About Geographical Areas

The Company's non-current assets (other than financial instruments, deferred tax assets and post-employment benefit assets) located in an individual foreign country as of June 30, 2010 and 2011, and revenues from external customers attributed to an individual foreign country for the six months ended June 30, 2010 and 2011 were as follows:

	Non-current Assets			Revenues			
	June 30			Six Months Ended June 30			
	2010	2011		2010	2011		
NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)		
Taiwan	\$ 10,939,596	\$ 20,349,683	\$ 706,623	\$ 2,938,841	\$ 9,358,291	\$ 324,958	
Country W	127,112	236,782	8,222	52,610,079	114,177,878	3,964,716	
Country X	16,803	2,178,681	75,653	7,161,640	17,494,780	607,489	
Country Y	273	227	8	5,143,991	10,087,771	350,288	
Country Z	1,548,677	3,884,082	134,871	3,017,486	6,329,892	219,799	
Others	20,059	476,159	16,534	28,035,220	71,105,993	2,469,087	
	<u>\$ 12,652,520</u>	<u>\$ 27,125,614</u>	<u>\$ 941,911</u>	<u>\$ 98,907,257</u>	<u>\$ 228,554,605</u>	<u>\$ 7,936,337</u>	

Information About Major Customers

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

Customer	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
A	\$ 12,650,950	\$ 43,291,073	\$ 1,503,241
B	11,053,664	32,284,025	1,121,031
C	<u>17,053,705</u>	<u>24,168,811</u>	<u>839,239</u>
	<u>\$ 40,758,319</u>	<u>\$ 99,743,909</u>	<u>\$ 3,463,511</u>