

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2010 and 2011 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of September 30, 2010 and 2011, and the related consolidated statements of income and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and the order VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan as of November 15, 2007, and accounting principles generally accepted in the Republic of China.

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

October 18, 2011

Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2010 AND 2011 (In Thousands, Except Par Value) (Reviewed, Not Audited)

ASSETS	2010		2011		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2011	
	NT\$	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 5)	\$ 68,477,628	\$ 104,820,790	\$ 3,438,382		Financial liabilities at fair value through profit or loss - current (Notes 2, 6 and 23)	\$ 411,269	\$ -	\$ -	
Financial assets at fair value through profit or loss - current (Notes 2, 6 and 23)	-	220,609	7,237		Notes and accounts payable (Note 24)	47,398,867	89,753,859	2,944,149	
Available-for-sale financial assets - current (Notes 2 and 7)	401,400	734,698	24,100		Income tax payable (Notes 2 and 21)	4,184,104	10,019,091	328,651	
Accounts receivable, net (Notes 2, 8 and 24)	45,285,194	74,371,757	2,439,578		Accrued expenses (Notes 16 and 24)	26,577,128	53,357,461	1,750,257	
Other current financial assets (Notes 9 and 24)	837,506	2,023,594	66,379		Payable for purchase of equipment	216,049	1,043,469	34,228	
Inventories (Notes 2 and 10)	17,304,891	31,865,411	1,045,264		Long-term liabilities - current portion (Note 18)	16,250	-	-	
Prepayments (Notes 11 and 24)	2,355,676	5,320,484	174,525		Other current liabilities (Notes 2, 17 and 24)	9,458,775	16,395,192	537,803	
Deferred income tax assets (Notes 2 and 21)	1,065,173	2,436,806	79,933						
Other current assets	415,599	1,126,671	36,958		Total current liabilities	88,262,442	170,569,072	5,595,088	
Total current assets	136,143,067	222,920,820	7,312,356		LONG-TERM LIABILITIES				
LONG-TERM INVESTMENTS					Long-term bank loans, net of current portion (Note 18)	12,188	-	-	
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	436	406	13		OTHER LIABILITIES				
Held-to-maturity financial assets - noncurrent (Notes 2 and 12)	-	205,441	6,739		Guarantee deposits received	949	37,000	1,214	
Financial assets carried at cost (Notes 2 and 13)	778,445	3,061,328	100,419						
Investments accounted for by the equity method (Notes 2 and 14)	-	76,214	2,500		Total liabilities	88,275,579	170,606,072	5,596,302	
Total long-term investments	778,881	3,343,389	109,671		EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF PARENT (Note 19)				
PROPERTIES (Notes 2, 15 and 24)					Capital stock - NT\$10.00 par value				
Cost					Authorized: 1,000,000 thousand shares				
Land	5,387,718	7,616,575	249,842		Issued and outstanding: 817,653 thousand shares in 2010 and 862,052 thousand shares in 2011				
Buildings and structures	4,360,171	5,652,625	185,420		Common stock	8,176,532	8,620,521	282,774	
Machinery and equipment	5,633,605	10,289,188	337,511		Capital surplus				
Molding equipment	172,632	172,632	5,663		Additional paid-in capital - issuance of shares in excess of par	10,777,623	14,983,419	491,493	
Computer equipment	436,850	669,422	21,959		Treasury stock transactions	-	1,750,767	57,429	
Transportation equipment	3,913	7,735	254		Long-term equity investments	18,411	18,411	604	
Furniture and fixtures	245,341	333,192	10,929		Merger	24,710	24,710	811	
Leased assets	6,009	5,939	195		Expired stock options	-	37,503	1,230	
Leasehold improvements	193,029	439,383	14,413		Retained earnings				
	16,439,268	25,186,691	826,186		Legal reserve	10,273,674	10,273,674	337,002	
Less: Accumulated depreciation	(5,594,550)	(6,852,984)	(224,795)		Special reserve	-	580,856	19,054	
Prepayments for construction-in-progress and equipment-in-transit	702,617	2,020,065	66,263		Accumulated earnings	38,080,198	73,033,196	2,395,670	
Properties, net	11,547,335	20,353,772	667,654		Other equity				
INTANGIBLE ASSETS (Note 2)					Cumulative translation adjustments (Note 2)	(27,300)	312,933	10,265	
Patents	-	2,135,822	70,060		Net loss not recognized as pension cost	(34)	(121)	(4)	
Goodwill	689,529	1,851,632	60,738		Unrealized (loss) gain on financial instruments (Notes 2 and 23)	(1,535)	1,733	57	
Deferred pension cost	490	416	14		Treasury stock (Notes 2 and 20)	(2,865,990)	(18,824,770)	(617,499)	
Other intangible assets	-	636,463	20,878		Total stockholders' equity	64,456,289	90,812,832	2,978,886	
Total intangible assets	690,019	4,624,333	151,690						
OTHER ASSETS					TOTAL	\$ 152,731,868	\$ 261,418,904	\$ 8,575,188	
Refundable deposits	135,203	159,789	5,241						
Deferred charges (Note 2)	204,907	556,417	18,252						
Deferred income tax assets (Notes 2 and 21)	1,722,899	4,104,499	134,638						
Restricted assets (Note 25)	93,662	71,095	2,332						
Other (Notes 2 and 11)	1,415,895	5,284,790	173,354						
Total other assets	3,572,566	10,176,590	333,817						
TOTAL	\$ 152,731,868	\$ 261,418,904	\$ 8,575,188						

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

HTC CORPORATION AND SUBSIDIARIES

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 24)	\$ 174,756,046	\$ 364,375,624	\$ 11,952,424
COST OF REVENUES (Notes 10 and 24)	<u>122,099,169</u>	<u>260,082,053</u>	<u>8,531,336</u>
GROSS PROFIT	<u>52,656,877</u>	<u>104,293,571</u>	<u>3,421,088</u>
OPERATING EXPENSES (Note 24)			
Selling and marketing	13,853,810	29,952,904	982,530
General and administrative	3,142,627	4,700,306	154,181
Research and development	<u>8,243,024</u>	<u>13,746,247</u>	<u>450,911</u>
Total operating expenses	<u>25,239,461</u>	<u>48,399,457</u>	<u>1,587,622</u>
OPERATING INCOME	<u>27,417,416</u>	<u>55,894,114</u>	<u>1,833,466</u>
NONOPERATING INCOME AND GAINS			
Interest income	229,570	493,203	16,178
Gain on sale of properties	890	-	-
Gains on disposal of investments	3,001	29	1
Exchange gains (Note 2)	729,923	1,528,938	50,153
Valuation gain on financial assets, net (Notes 2 and 6)	-	220,609	7,237
Other	<u>288,951</u>	<u>220,378</u>	<u>7,229</u>
Total nonoperating income and gains	<u>1,252,335</u>	<u>2,463,157</u>	<u>80,798</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	3,345	18,370	603
Losses on disposal of properties	8,787	363	12
Impairment losses (Notes 2 and 13)	33,161	18,608	610
Valuation loss on financial instruments, net (Notes 2 and 6)	411,269	-	-
Other	<u>34,463</u>	<u>19,117</u>	<u>627</u>
Total nonoperating expenses and losses	<u>491,025</u>	<u>56,458</u>	<u>1,852</u>
INCOME BEFORE INCOME TAX	28,178,726	58,300,813	1,912,412
INCOME TAX (Notes 2 and 21)	<u>(3,460,575)</u>	<u>(7,268,630)</u>	<u>(238,429)</u>
NET INCOME	<u>\$ 24,718,151</u>	<u>\$ 51,032,183</u>	<u>\$ 1,673,983</u>

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HTC CORPORATION AND SUBSIDIARIES

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

	2010		2011		
	NT\$	NT\$	NT\$	US\$	(Note 3)
ATTRIBUTABLE TO					
Stockholders of the parent	\$ 24,736,906	\$ 51,032,183	\$ 1,673,983		
Minority interest	<u>(18,755)</u>	<u>-</u>	<u>-</u>		
	<u>\$ 24,718,151</u>	<u>\$ 51,032,183</u>	<u>\$ 1,673,983</u>		
	2010	2011	Before	After	
	Income	Income	Income	Income	
	Tax	Tax	Tax	Tax	
	NT\$	NT\$	NT\$	US\$	(Note 3)
BASIC EARNINGS PER SHARE					
(Note 22)	<u>\$ 32.46</u>	<u>\$ 28.84</u>	<u>\$ 67.79</u>	<u>\$ 2.22</u>	<u>\$ 60.20</u>
DILUTED EARNINGS PER					
SHARE (Note 22)	<u>\$ 32.16</u>	<u>\$ 28.57</u>	<u>\$ 67.01</u>	<u>\$ 2.20</u>	<u>\$ 59.51</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2011

(In Thousands)

(Reviewed, Not Audited)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 24,718,151	\$ 51,032,183	\$ 1,673,983
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	647,898	1,066,871	34,996
Amortization	70,235	472,362	15,495
Compensation cost recognized for the transfer of treasury stock to employees	-	1,788,270	58,659
Amortization of premium on financial assets	-	2,505	82
Prepaid pension costs	(15,906)	(19,608)	(643)
Losses on disposal of properties, net	7,897	363	12
Transfer of properties to expenses	1,130	282	9
Gains on sale of investments, net	(3,001)	(29)	(1)
Impairment losses	33,161	18,608	610
Deferred income tax assets	(908,127)	(3,123,621)	(102,463)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	429,401	265,296	8,702
Accounts receivable	(18,143,363)	(12,634,103)	(414,430)
Other current financial assets	(601,898)	(1,240,054)	(40,677)
Inventories	(11,804,806)	(5,451,664)	(178,828)
Prepayments	980,195	(2,661,256)	(87,295)
Other current assets	(230,114)	(358,846)	(11,771)
Other assets - other	580,643	(2,622,201)	(86,015)
Notes and accounts payable	22,306,825	25,766,143	845,193
Income tax payable	(86,905)	3,199,791	104,962
Accrued expenses	11,564,993	24,077,690	789,808
Other current liabilities	<u>2,654,982</u>	<u>5,226,657</u>	<u>171,447</u>
Net cash provided by operating activities	<u>32,201,391</u>	<u>84,805,639</u>	<u>2,781,835</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	(3,511,180)	(490,000)	(16,073)
Proceeds from disposal of available-for-sale financial assets	5,610,175	200,029	6,561
Increase in financial assets carried at cost	(203,211)	(1,937,631)	(63,559)
Acquisition of investments accounted for by equity method	-	(76,214)	(2,500)
Acquisition of a subsidiary	(133,830)	(1,844,580)	(60,507)
Purchase of properties	(2,240,096)	(6,337,808)	(207,896)
Proceeds from disposal of properties	3,011	525	17

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2011

(In Thousands)

(Reviewed, Not Audited)

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Increase in refundable deposits	\$ (6,160)	\$ (8,929)	\$ (293)
Increase in deferred charges	(15,616)	(319,086)	(10,466)
Decrease in restricted assets	12,590	24,593	807
Acquisition of intangible assets	<u>-</u>	<u>(2,174,400)</u>	<u>(71,326)</u>
Net cash used in investing activities	<u>(484,317)</u>	<u>(12,963,501)</u>	<u>(425,235)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowings	(42,326)	-	-
Decrease in long-term bank loans	(18,437)	(24,376)	(800)
(Decrease) Increase in guarantee deposits received	(261)	23,041	756
Cash dividends	(20,122,332)	(29,891,089)	(980,502)
Purchase of treasury stock	(7,700,164)	(16,086,098)	(527,664)
Transfer treasury stock to employees	-	4,113,821	134,944
Decrease in minority interest	<u>(15,451)</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(27,898,971)</u>	<u>(41,864,701)</u>	<u>(1,373,266)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>21,235</u>	<u>380,492</u>	<u>12,481</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,839,338	30,357,929	995,815
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>64,638,290</u>	<u>74,462,861</u>	<u>2,442,567</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 68,477,628</u>	<u>\$ 104,820,790</u>	<u>\$ 3,438,382</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	<u>\$ 2,051</u>	<u>\$ 19,588</u>	<u>\$ 643</u>
Income tax	<u>\$ 4,455,560</u>	<u>\$ 7,182,577</u>	<u>\$ 235,606</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of retained earnings to common stock	<u>\$ 386,968</u>	<u>\$ 403,934</u>	<u>\$ 13,250</u>
Transfer of assets leased to others to properties	<u>\$ 48,135</u>	<u>\$ 50,828</u>	<u>\$ 1,667</u>
Retirement of treasury stock	<u>\$ 4,834,174</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of accrued stock bonus to employees to common stock and additional paid-in capital	<u>\$ 1,943,694</u>	<u>\$ 4,245,851</u>	<u>\$ 139,275</u>

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2011

(In Thousands)

(Reviewed, Not Audited)

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 2,301,794	\$ 6,994,167	\$ 229,426
Increase in payables for purchase of equipment	(62,498)	(601,493)	(19,730)
Decrease (increase) in lease payable	800	(54,866)	(1,800)
Cash paid for purchase of properties	<u>\$ 2,240,096</u>	<u>\$ 6,337,808</u>	<u>\$ 207,896</u>
ACQUISITION OF A SUBSIDIARY			
Expected net cash outflow on the acquisition of a subsidiary	\$ 245,927	\$ 1,849,800	\$ 60,678
Increase in other payable	(112,097)	(5,220)	(171)
Cash paid for acquisition of a subsidiary	<u>\$ 133,830</u>	<u>\$ 1,844,580</u>	<u>\$ 60,507</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

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

1. ORGANIZATION AND OPERATIONS

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

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company,” had 11,569 and 16,749 employees as of September 30, 2010 and 2011, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Principles of Consolidation

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

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

The consolidated entities as of September 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	18.08	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	
	HTC Investment One (BVI) Corporation	International holding	-	100.00	Incorporated in August 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

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Investor	Investee	Main Businesses	% of Ownership		Remark
			2010	2011	
High Tech Computer Asia Pacific Pte. Ltd.	HTC America Inc.	Marketing, repair and after-sales services	-	-	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
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 HTC South Eastern Europe Limited liability Company	'' ''	100.00 99.33	100.00 99.33	Incorporated in April 2010 Incorporated in June 2010

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2010	2011	
HTC Netherlands B.V.	HTC Nordic ApS.	Marketing, repair and after-sales services	-	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	"	-	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
	HTC Luxembourg S.a.r.l.	Online/download media services	-	100.00	Incorporated in May 2011
	HTC Norway AS	Marketing, repair and after-sales services	-	100.00	Incorporated in August 2011
	HTC Russia LLC	"	-	100.00	Incorporated in June 2011, and invested in August 2011.
	HTC Communication Sweden AB	"	-	100.00	Incorporated in September 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.	"	100.00	-	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 FRANCE CORPORATION	ABAXIA SAS	Design, research and development of application software	100.00	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
	Dashwire, Inc.	Design and development of wireless connectivity software	-	100.00	Invested in August, 2011
ABAXIA SAS	BLR Soft	Design, research and development of application software	100.00	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 and July 2010, the Company wholly acquired the shares issued by Huada Digital Corporation and Abaxia SAS, respectively. However, the Company lost its significant influence of BandRich Inc. in July 2010. The net assets of these companies were as follows:

	Abaxia SAS	BandRich Inc.	Huada Digital Corporation (Note)	Total
Cash in hand and in banks	\$ 93,848	\$ 34,181	\$ 245,000	\$ 373,029
Other current assets	62,626	117,589	-	180,215
Properties	4,813	38,960	-	43,773
Other assets	14,041	1,155	-	15,196
Current liabilities	<u>(140,043)</u>	<u>(160,572)</u>	<u>-</u>	<u>(300,615)</u>
Total consideration	<u>\$ 35,285</u>	<u>\$ 31,313</u>	<u>\$ 245,000</u>	<u>\$ 311,598</u>
Cash consideration/cash at the beginning of period	\$ 530,446	\$ 88,510	\$ -	\$ 618,956
Cash at the acquisition date/losing control date	<u>(93,848)</u>	<u>(34,181)</u>	<u>(245,000)</u>	<u>(373,029)</u>
Net cash outflow (inflow) on the acquisition of a subsidiary	<u>\$ 436,598</u>	<u>\$ 54,329</u>	<u>\$ (245,000)</u>	<u>\$ 245,927</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.

In January and August, 2011, the Company wholly acquired the shares issued by Saffron Media Group Ltd. and Dashwire, Inc., respectively. The net assets of these companies were as follows:

	Saffron Media Group Ltd.	Dashwire, Inc.	Total
Cash on hand and in banks	\$ 18,945	\$ 8,860	\$ 27,805
Other current assets	161,622	2,756	164,378
Properties	8,629	1,247	9,876
Other assets	1,130	40,164	41,294
Current liabilities	<u>(142,250)</u>	<u>(111,898)</u>	<u>(254,148)</u>
Net assets	<u>\$ 48,076</u>	<u>\$ (58,871)</u>	<u>\$ (10,795)</u>
Cash consideration	\$ 1,393,717	\$ 483,888	\$ 1,877,605
Cash at the acquisition date	<u>(18,945)</u>	<u>(8,860)</u>	<u>(27,805)</u>
Net cash outflow on the acquisition of a subsidiary	<u>\$ 1,374,772</u>	<u>\$ 475,028</u>	<u>\$ 1,849,800</u>

Foreign Currencies

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

- Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- Stockholders' equity - at historical exchange rates;
- Dividends - at the exchange rate prevailing on the dividend declaration date; and
- 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 income tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

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

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

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 nine months ended September 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\$30.4855 to US\$1.00 quoted by the Reuters on September 30, 2011. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. ACCOUNTING CHANGES

Financial Instruments

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

Operating Segments

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

5. CASH AND CASH EQUIVALENTS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 5,698	\$ 6,305	\$ 207
Cash in banks	14,195,358	43,038,082	1,411,756
Time deposits	<u>54,276,572</u>	<u>61,776,403</u>	<u>2,026,419</u>
	<u>\$ 68,477,628</u>	<u>\$ 104,820,790</u>	<u>\$ 3,438,382</u>

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

On preferential deposits, interest rates ranged from 0.08% to 4.20% and 0.15%-1.15% as of September 30, 2010 and 2011, respectively.

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

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

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

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

Forward Exchange Contracts

2010				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2010.10.06-2010.11.26	EUR 221,000
Forward exchange contracts	Sell	GBP/USD	2010.10.13-2010.11.10	GBP 7,500
Forward exchange contracts	Sell	USD/NTD	2010.10.08-2010.11.17	USD 123,000
Forward exchange contracts	Buy	USD/JPY	2010.10.20-2010.11.24	USD 6,979
2011				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2011.10.05-2011.12.21	EUR 271,000
Forward exchange contracts	Sell	GBP/USD	2011.10.05-2011.10.26	GBP 22,710
Forward exchange contracts	Buy	USD/CAD	2011.10.05-2011.11.30	USD 5,259

Net loss on derivative financial instruments for the nine months ended September 30, 2010 was NT\$42,240 thousand, including realized settlement gain of NT\$369,029 thousand and valuation loss of NT\$411,269 thousand.

Net loss on derivative financial instruments for the nine months ended September 30, 2011 was NT\$367,603 thousand (US\$12,058 thousand), including realized settlement loss of NT\$588,212 thousand (US\$19,295 thousand) and valuation gain of NT\$220,609 thousand (US\$7,237 thousand). Note 23 has more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

8. ACCOUNTS RECEIVABLE

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Accounts receivable	\$ 46,293,712	\$ 75,925,731	\$ 2,490,552
Accounts receivable - related parties	53	34	1
Less: Allowance for doubtful accounts	<u>(1,008,571)</u>	<u>(1,554,008)</u>	<u>(50,975)</u>
	<u>\$ 45,285,194</u>	<u>\$ 74,371,757</u>	<u>\$ 2,439,578</u>

9. OTHER CURRENT FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables (Note 24)	\$ 624,325	\$ 1,679,046	\$ 55,077
Agency payments	199,803	316,255	10,374
Interest receivables	11,706	24,265	796
Others	<u>1,672</u>	<u>4,028</u>	<u>132</u>
	<u>\$ 837,506</u>	<u>\$ 2,023,594</u>	<u>\$ 66,379</u>

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

10. INVENTORIES

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 1,413,450	\$ 1,575,583	\$ 51,683
Work-in-process	3,676,298	9,253,387	303,534
Raw materials	12,011,042	20,671,429	678,074
Goods in transit	<u>204,101</u>	<u>365,012</u>	<u>11,973</u>
	<u>\$ 17,304,891</u>	<u>\$ 31,865,411</u>	<u>\$ 1,045,264</u>

As of September 30, 2010 and 2011, the allowance for inventory devaluation was NT\$3,132,706 thousand and NT\$4,595,570 thousand (US\$150,746 thousand), respectively.

The write-down of inventories to their net realizable value amounted to NT\$206,772 thousand and NT\$2,371,982 thousand (US\$77,807 thousand) and was recognized as cost of sales for the nine months ended September 30, 2010 and 2011, respectively.

11. PREPAYMENTS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 1,831,195	\$ 3,082,554	\$ 101,115
Prepayments for materials purchases	40,042	1,381,485	45,316
Software and hardware maintenance	122,169	261,077	8,564
Net input VAT	200,740	195,563	6,415
Marketing	32,704	156,659	5,139
Molding equipment	28,865	122,216	4,009
Rental	10,096	61,072	2,003
Others	<u>89,865</u>	<u>59,858</u>	<u>1,964</u>
	<u>\$ 2,355,676</u>	<u>\$ 5,320,484</u>	<u>\$ 174,525</u>

Prepayments for royalty were primarily for discount purposes and classified as current or noncurrent on the basis of their maturities. As of September 30, 2010 and 2011, noncurrent prepayments of NT\$1,262,528 thousand and NT\$3,099,196 thousand (US\$101,661 thousand), respectively, had been classified as other assets (Note 27 has more information).

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

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

12. HELD-TO-MATURITY FINANCIAL ASSETS

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Corporate bonds	<u>\$ -</u>	<u>\$ 205,441</u>	<u>\$ 6,739</u>

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

13. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of September 30, 2010 and 2011 were as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 16,401
Answer Online, Inc.	1,192	1,192	39
BandRich Inc.	15,861	15,861	521
SoundHound Inc.	62,520	60,971	2,000
GSUO Inc.	156,300	152,428	5,000
Felicis Ventures II LP	-	57,160	1,875
WI Harper Fund VII	-	27,437	900
NETQIN MOBILE Inc.	-	76,214	2,500
Luminous Optical Technology Co., Ltd.	-	183,000	6,003
OnLive, Inc.	-	1,219,420	40,000
KKBOX Inc.	-	304,855	10,000
TransLink Capital Partners II, L.P.	-	45,728	1,500
Shanghai F-road Commercial Co., Ltd.	-	167,229	5,485
Primavera Capital (Cayman) Fund L.L.P.	-	251,025	8,234
Prepaid for long-term investments	43,764	-	-
	<u>779,637</u>	<u>3,062,520</u>	<u>100,458</u>
Less: Accumulated impairment losses	<u>(1,192)</u>	<u>(1,192)</u>	<u>(39)</u>
	<u>\$ 778,445</u>	<u>\$ 3,061,328</u>	<u>\$ 100,419</u>

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

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

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

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\$60,971 thousand).

In May 2010, the Company acquired 11.11% equity interest in GSUO Inc. for US\$5,000 thousand (NT\$152,428 thousand).

In 2010 and 2011, the Company invested Felicis Ventures II LP for US\$750 thousand and US\$1,125 thousand, respectively. As of September 30, 2011, the Company's investment amounted to US\$1,875 thousand (NT\$57,160 thousand), and the ownership percentage is 11.67%.

In August 2010, the Company acquired 4.09% equity interest in WI Harper Fund VII for US\$900 thousand (NT\$27,437 thousand).

In December 2010, the Company acquired 1.60% equity interest in NETQIN MOBILE Inc. for US\$2,500 thousand (NT\$76,214 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 3.79% equity interest in OnLive, Inc. for US\$40,000 thousand (NT\$1,219,420 thousand).

In March 2011, the Company acquired 11.11% equity interest in KKBOX Inc. for US\$10,000 thousand (NT\$304,855 thousand).

In June 2011, the Company acquired 19.22% equity interest in TransLink Capital Partners II, L.P. for US\$1,500 thousand (NT\$45,728 thousand).

In May 2011, the Company acquired 17.70% equity interest in Shanghai F-road Commercial Co., Ltd. for US\$5,500 thousand (NT\$167,229 thousand).

In August 2011, the Company acquired 9.49% equity interest in Primavera Capital (Cayman) Fund L.L.P. for US\$8,234 thousand (NT\$251,025 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 September 30, 2010 and 2011 were as follows:

	2010		2011				Ownership Percentage
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
	NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method							
Vitamin D Inc.	\$ -	-	\$ -	\$ -	\$ -	\$ -	-
Prepaid for long-term investments	-		76,214	2,500	76,214	2,500	
	<u>\$ -</u>		<u>\$ 76,214</u>	<u>\$ 2,500</u>	<u>\$ 76,214</u>	<u>\$ 2,500</u>	

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

In September 2011, the Company acquired 20% equity interest in SYNCTV Corporation for US\$2,500 thousand (NT\$76,214 thousand) and accounts for this investment by the equity method. Because the registration of this investment had not been completed as of September 30, 2011, the investment was temporarily accounted for under “prepayments for long-term investments.”

15. PROPERTIES

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

	2010		2011		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Land	\$ 5,387,718	\$ 7,616,575	\$ -	\$ 7,616,575	\$ 249,842
Buildings and structures	3,582,958	5,652,625	962,340	4,690,285	153,853
Machinery and equipment	1,597,131	10,289,188	5,003,670	5,285,518	173,378
Molding equipment	-	172,632	172,632	-	-
Computer equipment	135,662	669,422	378,413	291,009	9,546
Transportation equipment	1,459	7,735	3,528	4,207	138
Furniture and fixtures	65,593	333,192	199,327	133,865	4,391
Leased assets	1,701	5,939	5,433	506	17
Leasehold improvements	72,496	439,383	127,641	311,742	10,226
Prepayments for construction-in-progress and equipment-in-transit	<u>702,617</u>	<u>2,020,065</u>	<u>-</u>	<u>2,020,065</u>	<u>66,263</u>
	<u>\$ 11,547,335</u>	<u>\$ 27,206,756</u>	<u>\$ 6,852,984</u>	<u>\$ 20,353,772</u>	<u>\$ 667,654</u>

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

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

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

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

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

16. ACCRUED EXPENSES

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

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 14,025,329	\$ 33,433,171	\$ 1,096,691
Bonus to employees	5,641,902	6,218,734	203,990
Salaries and bonuses	2,504,242	7,183,246	235,628
Research materials	648,631	1,701,307	55,807
Import, export and freight	990,250	1,613,210	52,917
Services	1,381,941	1,302,546	42,727
Donation	442,800	480,800	15,771
Repair and maintenance	133,324	259,480	8,512
Meals and welfare	160,563	199,450	6,543
Insurance	111,160	182,461	5,985
Travel	41,031	115,344	3,784
Pension cost	67,730	107,013	3,510
Others	<u>428,225</u>	<u>560,699</u>	<u>18,392</u>
	<u>\$ 26,577,128</u>	<u>\$ 53,357,461</u>	<u>\$ 1,750,257</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 and accounted for under "Salaries") of net income before deducting employee bonus expenses. Accrued bonus as of September 30, 2010 and 2011 were as follows:

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

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

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

17. OTHER CURRENT LIABILITIES

Other current liabilities as of September 30, 2010 was as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 8,089,564	\$ 13,389,098	\$ 439,196
Advance receipts	258,429	1,567,259	51,410
Other payable	320,082	329,064	10,794
Agency receipts	399,692	267,573	8,777
Others	<u>391,008</u>	<u>842,198</u>	<u>27,626</u>
	<u>\$ 9,458,775</u>	<u>\$ 16,395,192</u>	<u>\$ 537,803</u>

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

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

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\$46,143 thousand (US\$1,514 thousand) had not been paid as of September 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\$54,280 thousand (US\$1,781 thousand) had not been paid as of September 30, 2011.

18. LONG-TERM BANK LOANS

Long-term bank loans as of September 30, 2010 was as follows:

	<u>2010</u>	<u>2011</u>	
	NT\$	NT\$	US\$ (Note 3)
Secured loans			
NT\$65,000 thousand, repayable from July 2009 in 16 quarterly installments; 1% annual interest	\$ 28,438	\$ -	\$ -
Less: Current portion	<u>(16,250)</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,188</u>	<u>\$ -</u>	<u>\$ -</u>

19. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2010 amounted to NT\$7,889,358 thousand, divided into 788,936 thousand common shares at NT\$10.00 par value. In April 2010, the Company retired 15,000 thousand treasury shares at NT\$150,000 thousand. In June 2010, the stockholders approved the transfer of retained earnings amounting to NT\$386,968 thousand and employee bonuses amounting to NT\$50,206 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2010 increased to NT\$8,176,532 thousand, divided into 817,653 thousand common shares at NT\$10.00 par value.

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

Global Depositary Receipts

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

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

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

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

Capital Surplus

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

The additional paid-in capital was NT\$9,056,323 thousand as of January 1, 2010. In April 2010, the retirement of treasury stock caused a decrease of additional paid-in capital amounting to NT\$172,188 thousand. The bonus to employees of NT\$4,859,236 thousand for 2009 was approved in the stockholders' meeting in June 2010. Of the approved amount, NT\$1,943,694 thousand, representing 5,021 thousand common shares which was determined by fair value, would be distributed by common stock in 2010. The difference between par value and fair value of NT\$1,893,488 thousand was accounted for as additional paid-in capital in 2010. As a result, the additional paid-in capital as of September 30, 2010 was NT\$10,777,623 thousand.

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

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

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

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

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

The additional paid-in capital from a merger was NT\$25,189 thousand as of January 1, 2010. In April 2010, the retirement of treasury stock caused a decrease of additional paid-in capital from a merger amounting to NT\$479 thousand. As a result, the additional paid-in capital from a merger as of September 30, 2011 was NT\$24,710 thousand (US\$811 thousand).

Appropriation of Retained Earnings and Dividend Policy

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

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

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

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

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

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

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

20. TREASURY STOCK

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

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

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

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

On July 16, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand and 10,000 thousand company shares from the open market between July 18, 2011 and August 17, 2011, and between August 18, 2011 and September 17, 2011, respectively, with the repurchase price ranging from NT\$900 to NT\$1,100 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The Company bought back 20,000 thousand shares for NT\$16,086,098 thousand (US\$527,664 thousand) during the repurchase period. The related treasury stock information for the nine months ended September 30, 2010 and 2011 were as follows:

(In Thousands of Shares)

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

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

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

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010. In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 20% to 17%, also effective January 1, 2010. Provision for income tax expense (benefit) for the nine months ended September 30, 2010 and 2011, income tax payable, income tax receivables and deferred income tax assets (liabilities) as of September 30, 2010 and 2011 were as follows:

	2010			
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Income Tax Assets (Liabilities)
	NT\$	NT\$	NT\$	NT\$
HTC Corporation	\$ 3,107,428	\$ 3,904,760	\$ -	\$ 2,678,788
Communication Global Certification Inc.	218	-	44	1,358
HTC Investment Corporation	88	-	225	-
HTC I Investment Corporation	123	28	-	-
Huada Digital Corporation	84	24	-	-
High Tech Computer Asia Pacific Pte. Ltd.	905	566	-	38
HTC Communication Corporation	8,073	8,047	-	-
HTC America Inc.	218,477	110,326	-	89,905
HTC EUROPE CO., LTD.	74,756	107,571	-	-
Exedea Inc.	21,610	-	3,265	2,688
HTC NIPPON Corporation	1,743	1,802	-	-
HTC BRASIL	(5,258)	-	3,941	6,469
HTC Corporation (Shanghai WGQ)	518	237	256	-
One & Company Design, Inc.	(5,810)	-	1,626	529
HTC Belgium BAVA/SPRL	12,615	14,899	-	831
High Tech Computer (H.K.) Limited	894	877	-	-
HTC (Australia and New Zealand) Pty. Ltd.	3,545	390	-	(622)
HTC India Private Limited	1,346	6,852	23	-
HTC (Thailand) Limited	776	324	-	-

(Continued)

2010

	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Income Tax Assets (Liabilities)
	NT\$	NT\$	NT\$	NT\$
HTC Electronics (Shanghai) Co., Ltd.	\$ 15,141	\$ 24,704	\$ -	\$ 7,760
HTC Malaysia Sdn. Bhd.	808	(734)	-	328
HTC Innovation Limited	683	676	-	-
HTC Netherlands B. V.	395	1,314	-	-
HTC FRANCE CORPORATION	1,293	1,315	-	-
HTC South Eastern Europe Limited liability Company	<u>124</u>	<u>126</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,460,575</u>	<u>\$ 4,184,104</u>	<u>\$ 9,380</u>	<u>\$ 2,788,072</u>

(Concluded)

2011

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Income Tax Assets (Liabilities)	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
HTC Corporation	\$ 6,433,781	\$ 211,044	\$ 8,949,877	\$ 293,578	\$ -	\$ -	\$ 5,794,840	\$ 190,086
Communication Global Certification Inc.	8,719	286	7,056	231	-	-	214	7
HTC Investment Corporation	151	5	-	-	15	1	-	-
HTC I Investment Corporation	116	4	-	-	46	2	-	-
Huada Digital Corporation	141	5	-	-	29	1	-	-
High Tech Computer Asia Pacific Pte. Ltd.	8,452	277	7,878	258	-	-	37	1
HTC Communication Co., Ltd.	185,138	6,072	683,146	22,409	-	-	555,270	18,214
HTC America Inc.	255,037	8,365	-	-	148,800	4,880	95,234	3,124
HTC EUROPE CO., LTD.	121,329	3,980	124,792	4,094	-	-	9,048	297
Exedea Inc.	690	23	37	1	153	4	-	-
HTC NIPPON Corporation	3,397	111	-	-	59	2	-	-
HTC BRASIL	1,025	34	-	-	17	1	2,463	81
HTC Corporation (Shanghai WGQ) One & Company Design, Inc.	1,847	61	563	19	-	-	-	-
HTC Belgium BAVA/SPRL	10,854	356	11,682	383	-	-	18,657	612
HTC HK, Limited	575	19	9,090	298	-	-	-	-
High Tech Computer (H.K.) Limited	1,744	57	5,193	170	-	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	2,612	86	-	-	-	-	-	-
HTC India Private Limited	8,018	263	6,575	216	-	-	(2,841)	(93)
HTC (Thailand) Limited	4,999	164	4,863	160	20	1	(39)	(1)
HTC Electronics (Shanghai) Co., Ltd.	2,371	78	1,015	33	-	-	-	-
HTC Malaysia Sdn. Bhd.	139,370	4,571	61,104	2,005	-	-	48,458	1,589
HTC Innovation Limited	2,795	92	98	3	-	-	270	9
HTC Netherlands B.V.	2,158	71	1,054	35	-	-	-	-
HTC FRANCE CORPORATION	1,146	38	1,395	46	-	-	-	-
HTC South Eastern Europe Limited liability Company	(28)	(1)	673	22	-	-	(83,409)	(2,736)
HTC Nordic ApS.	1,027	34	1,050	34	-	-	-	-
HTC Italia SRL	5,010	164	5,406	177	-	-	(83)	(3)
HTC Germany GmbH.	3,985	131	-	-	-	-	-	-
HTC Iberia S.L.	5,744	188	2,596	85	-	-	-	-
HTC Poland sp. z o.o.	3,918	129	4,186	137	-	-	-	-
ABAXIA SAS	16	1	-	-	-	-	2,039	66
HTC America Innovation Inc.	7,267	238	-	-	-	-	-	-
Saffron Digital Inc.	46,785	1,534	124,076	4,070	-	-	103,589	3,398
Dashwire Inc.	(1,559)	(51)	5,290	174	-	-	(2,442)	(80)
	<u>-</u>	<u>-</u>	<u>396</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,268,630</u>	<u>\$ 238,429</u>	<u>\$ 10,019,091</u>	<u>\$ 328,651</u>	<u>\$ 149,139</u>	<u>\$ 4,892</u>	<u>\$ 6,541,305</u>	<u>\$ 214,571</u>

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

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	\$ 517,187	\$ 778,911	\$ 25,550
Unrealized royalties	2,247,813	4,566,970	149,808
Unrealized contingent loss of purchase orders	-	529,682	17,375
Unrealized marketing expense	2,287,195	5,534,083	181,532
Unrealized reserve for warranty expense	1,371,632	2,289,604	75,105
Capitalize expense	93,397	66,724	2,189
Unrealized bad-debt expenses	93,533	63,783	2,092
Unrealized sales allowance	-	176,797	5,799
Unrealized research materials	-	125,927	4,131
Unrealized salaries and welfare	-	395,521	12,974
Unrealized valuation loss on financial instruments	69,916	-	-
Other	71,047	126,285	4,142
Prior years' loss carryforwards	4,027	1,058	35
Tax credit carryforwards	<u>3,154,007</u>	<u>3,141,446</u>	<u>103,047</u>
Total deferred income tax assets	9,909,754	17,796,791	583,779
Less: Valuation allowance	<u>(6,913,947)</u>	<u>(11,104,741)</u>	<u>(364,263)</u>
Total deferred income tax asset, net	2,995,807	6,692,050	219,516
Deferred income tax liability			
Unrealized pension cost	(26,177)	(30,399)	(997)
Unrealized value gain on financial instruments	(181,558)	(32,026)	(1,051)
Unrealized exchange gains, net	-	(37,504)	(1,230)
Unrealized depreciation	-	(20,569)	(675)
Other	<u>-</u>	<u>(30,247)</u>	<u>(992)</u>
	2,788,072	6,541,305	214,571
Less: Current portion	<u>(1,065,173)</u>	<u>(2,436,806)</u>	<u>(79,933)</u>
Deferred income tax assets - noncurrent	<u>\$ 1,722,899</u>	<u>\$ 4,104,499</u>	<u>\$ 134,638</u>

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	2010	2011	
		NT\$	NT\$	US\$ (Note 3)
2006	2006-2010	\$ 5,851	\$ -	\$ -
2007	2007-2011	4,404	-	-
2008	2008-2012	833,163	831,154	27,264
2009	2009-2013	<u>2,310,589</u>	<u>2,310,292</u>	<u>75,783</u>
		<u>\$ 3,154,007</u>	<u>\$ 3,141,446</u>	<u>\$ 103,047</u>

Detail of the loss carryforwards are as follows:

Year of Occurrence	Validity Period	2010	2011	
		NT\$	NT\$	US\$ (Note 3)
2006	2007-2016	\$ 1,895	\$ -	\$ -

As of September 30, 2010 and 2011, the loss carryforwards of HTC BRASIL that gave rise to deferred income tax assets in the Federative Republic of Brazil were NT\$3,705 thousand and NT\$1,058 thousand (US\$35 thousand), respectively. 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 nine months ended September 30, 2010 and 2011 were as follows:

	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 4,303,026	\$ 10,299,311	\$ 337,843
Increase in deferred income tax assets	(908,127)	(3,123,621)	(102,463)
Underestimation of prior year's income tax	<u>65,676</u>	<u>92,940</u>	<u>3,049</u>
Income tax	<u>\$ 3,460,575</u>	<u>\$ 7,268,630</u>	<u>\$ 238,429</u>

The integrated income tax information is as follows:

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

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

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

22. EARNINGS PER SHARE

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

The Accounting Research and Development Foundation issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effects of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year. The related EPS information for the nine months ended September 30, 2010 and 2011 was as follows:

	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS	
	Before Income Tax NT\$	After Income Tax NT\$		Before Income Tax NT\$	After Income Tax NT\$
<u>Nine months ended September 30, 2010</u>					
Basic EPS	\$ 27,844,334	\$ 24,736,906	857,740	\$ 32.46	\$ 28.84
Bonus to employees	-	-	8,159		
Diluted EPS	\$ 27,844,334	\$ 24,736,906	865,899	\$ 32.16	\$ 28.57
<u>Nine months ended September 30, 2011</u>					
Basic EPS	\$ 57,465,964	\$ 51,032,183	847,739	\$ 67.79	\$ 60.20
Bonus to employees	-	-	9,868		
Diluted EPS	\$ 57,465,964	\$ 51,032,183	857,607	\$ 67.01	\$ 59.51
<u>Nine months ended September 30, 2011</u>					
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS	
	Before Income Tax US\$ (Note 3)	After Income Tax US\$ (Note 3)		Before Income Tax US\$ (Note 3)	After Income Tax US\$ (Note 3)
Basic EPS	\$ 1,885,027	\$ 1,673,983	847,739	\$ 2.22	\$ 1.97
Bonus to employees	-	-	9,868		
Diluted EPS	\$ 1,885,027	\$ 1,673,983	857,607	\$ 2.20	\$ 1.95

23. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	September 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	\$ 401,400	\$ 401,400	\$ 734,698	\$ 24,100	\$ 734,698	\$ 24,100
Available-for-sale financial assets - noncurrent	436	436	406	13	406	13
Held-to-maturity financial assets - noncurrent	-	-	205,441	6,739	204,728	6,716
Financial assets carried at cost	778,445	778,445	3,061,328	100,419	3,061,328	100,419

b. Derivative financial instruments

	September 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 - current	\$ -	\$ -	\$ 220,609	\$ 7,237	\$ 220,609	\$ 7,237
Liabilities						
Financial liabilities at fair value through profit or loss - current	411,269	411,269	-	-	-	-

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

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

The financial instruments 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		
	September 30			September 30		
	2010	2011	US\$	2010	2011	US\$
	NT\$	NT\$	(Note 3)	NT\$	NT\$	(Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ -	\$ -	\$ 220,609	\$ 7,237
Available-for-sale financial assets - current	401,400	734,698	24,100	-	-	-
Available-for-sale financial assets - noncurrent	436	406	13	-	-	-
Held-to-maturity financial assets - noncurrent	-	204,728	6,716	-	-	-
Financial assets carried at cost	-	-	-	778,445	3,061,328	100,419
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	-	-	411,269	-	-

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

As of September 30, 2010 and 2011, financial assets exposed to fair value interest rate risk and financial assets exposed to cash flow interest rate risk amounted to NT\$0 thousand and NT\$205,441 thousand (US\$6,739 thousand) and NT\$54,370,234 and NT\$61,847,498 thousand (US\$2,028,751 thousand), respectively; financial liabilities exposed to fair value interest rate risk amounted to NT\$28,438 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.

24. 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
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	Nine Months Ended September 30			
	2010		2011	
	Amount	% to Total Net Purchases	Amount	% to Total Net Purchases
	NT\$		NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$ <u>173,539</u>	-	\$ <u>172,540</u>	\$ <u>5,660</u>

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

Sales and Services Provided

Related Party	Nine Months Ended September 30			
	2010		2011	
	Amount	% to Total Revenues	Amount	% to Total Revenues
	NT\$		NT\$	US\$ (Note 3)
Employees' Welfare Committee	\$ 34,112	-	\$ 52,510	\$ 1,722
Others	<u>1,844</u>	-	<u>2,017</u>	<u>67</u>
	<u>\$ 35,956</u>	-	<u>\$ 54,527</u>	<u>\$ 1,789</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.

Accounts Receivable

Related Party	September 30				% to Total Accounts Receivable
	2010		2011		
	Amount NT\$	% to Total Accounts Receivable	Amount NT\$	US\$ (Note 3)	
VIA Technologies Inc.	\$ 22	-	\$ 34	\$ 1	-
Others	<u>31</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 53</u>	<u>-</u>	<u>\$ 34</u>	<u>\$ 1</u>	<u>-</u>

Accounts Payable

Related Party	September 30				% to Total Notes and Accounts Payable
	2010		2011		
	Amount NT\$	% to Total Notes and Accounts Payable	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp.	<u>\$ 104,831</u>	<u>-</u>	<u>\$ 25,262</u>	<u>\$ 829</u>	<u>-</u>

Other Receivable

Related Party	September 30				% to Total Other Receivable
	2010		2011		
	Amount NT\$	% to Total Other Receivable	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp.	\$ 30	-	\$ -	\$ -	-
VIA Technologies Inc.	11	-	-	-	-
Others	<u>101</u>	<u>-</u>	<u>143</u>	<u>5</u>	<u>-</u>
	<u>\$ 142</u>	<u>-</u>	<u>\$ 143</u>	<u>\$ 5</u>	<u>-</u>

Prepaid Expenses

Related Party	September 30				% of Total Prepaid Expenses
	2010		2011		
	Amount NT\$	% of Total Prepaid Expenses	Amount NT\$	US\$ (Note 3)	
VIA Technologies Inc.	<u>\$ 87</u>	<u>-</u>	<u>\$ 87</u>	<u>3</u>	<u>-</u>

Accrued Expenses

Related Party	September 30				% of Total Accrued Expenses
	2010		2011		
	Amount NT\$	% of Total Accrued Expenses	Amount NT\$	US\$ (Note 3)	
HTC Cultural and Education Foundation	\$ 217,800	1	\$ 217,800	\$ 7,144	1
Way-Lien Technology Inc.	<u>200</u>	<u>-</u>	<u>200</u>	<u>7</u>	<u>-</u>
	<u>\$ 218,000</u>	<u>1</u>	<u>\$ 218,000</u>	<u>\$ 7,151</u>	<u>1</u>

Accrued expenses include consulting expenses. Note 16 has more information about HTC Cultural and Educational Foundation

Other Payables to Related Parties

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

Service Fees

Related Party	Nine Months Ended September 30				% to Total Service Fees
	2010		2011		
	Amount NT\$	% to Total Service Fees	Amount NT\$	US\$ (Note 3)	
Way-Lien Technology Inc.	\$ <u>1,400</u>	<u>-</u>	\$ <u>1,800</u>	\$ <u>59</u>	<u>-</u>

Leasing - Lessee

Operating expense - rental expense

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

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

Patent Litigation

Note 28 has more information about patent litigation

25. PLEDGED ASSETS

As of September 30, 2010 and 2011, the Company had provided time deposits of NT\$93,662 thousand and NT\$71,095 thousand (US\$2,332 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.

26. COMMITMENTS AND CONTINGENCIES

As of September 30, 2011, unused letters of credit amounted to USD 4,866 thousand, EUR 60 thousand and JPY 745,493 thousand.

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

27. 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)

28. OTHER EVENTS

Lawsuit

- a. In April 2008, ICom GMBH & CO., KG (“ICom”) filed a multi-claim lawsuit against the Company with the District Court of Mannheim in Germany, alleging that the Company infringed ICom’s patents. In February 2009, the court granted a ruling on patent #100 (EP 186189B1) which granted ICom’s request for an injunction to prevent the Company from importing devices into Germany, with the serving of this injunction pending ICom’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 ICom’s patent #173 (EP 1018849).

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

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

As of October 18, 2011, the date of the accompanying independent accountants’ review report, there had been no critical hearing nor had a court decision been made, except for the above.

- b. In March 2010, Apple Inc. (“Apple”) filed a lawsuit against the Company concurrently with the U.S. International Trade Commission (“ITC”) and U.S. District Court in Delaware (“Delaware court”), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing to and selling devices in the United States and damage compensation, respectively (ITC No. 337-TA-710). The Company subsequently filed ITC investigation and filed counterclaim with Delaware court against Apple for patent infringements. The Company requested ITC and Delaware court to prevent Apple from importing and selling devices in the United States and damage compensation, respectively (ITC No. 337-TA-721).

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

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

As of October 18, 2011, the date of the accompanying independent accountants' review report, there had been no critical hearing nor had a court decision been made, except for the above.

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

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

- d. The Company had shared lawsuit-related costs based on common benefits and agreements between its vendors and customers. For the nine months ended September 30, 2011, the lawsuit-related costs incurred by VIA Technologies Inc. and its subsidiaries were shared by the Company.
- e. The Company had examined their circumstances and related information, including past experiences, expert opinions, results of the evaluation of contingencies and estimation of the degree of actual occurrence, and concluded that the amounts of contingent assets or liabilities were appropriately accounted.

Construction for Taipei R&D Headquarters

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

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

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

Acquisition of 51% Equity Interest in Beats Electronics, LLC

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

Other

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

	September 30			
	2010		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 1,777,156	31.26	\$ 3,505,154	30.49
EUR	576,263	42.58	594,663	41.24
GBP	45,761	49.56	82,601	47.48
RMB	362,919	4.72	1,834,496	4.77
Nonmonetary items				
USD	7,000	31.26	77,509	30.49
Investments accounted for by the equity method				
USD	-	-	2,500	30.49
<u>Financial liabilities</u>				
Monetary items				
USD	2,480,206	31.26	3,616,086	30.49
EUR	333,717	42.58	595,404	41.24
GBP	85,179	49.56	68,511	47.48
RMB	251,675	4.72	966,767	4.77

29. 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 income tax assets and post-employment benefit assets) located in an individual foreign country as of September 30, 2010 and 2011, and revenues from external customers attributed to an individual foreign country for the nine months ended September 30, 2010 and 2011 were as follows:

	Non-current Assets			Revenues			
	Nine Months Ended September 30			Nine Months Ended September 30			
	2010	2011		2010	2011		
NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)		
Taiwan	\$ 11,042,417	\$ 22,265,945	\$ 730,378	\$ 4,538,939	\$ 14,235,201	\$ 466,950	
Country W	85,039	966,131	31,691	94,052,682	180,752,015	5,929,114	
Country X	27,028	2,126,613	69,758	12,305,867	23,849,123	782,310	
Country Y	311	419	14	10,541,998	16,341,354	536,037	
Country Z	2,042,564	4,869,502	159,732	3,819,087	14,510,413	475,978	
Others	506,940	411,853	13,510	49,497,473	114,687,518	3,762,035	
	<u>\$ 13,704,299</u>	<u>\$ 30,640,463</u>	<u>\$ 1,005,083</u>	<u>\$ 174,756,046</u>	<u>\$ 364,375,624</u>	<u>\$ 11,952,424</u>	

Information About Major Customers

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

Customer	2010	2011	
	NT\$	NT\$	US\$ (Note 3)
A	\$ 31,148,465	\$ 71,606,677	\$ 2,348,877
B	27,459,229	54,940,056	1,802,170
C	<u>32,774,785</u>	<u>41,333,651</u>	<u>1,355,846</u>
	<u>\$ 91,382,479</u>	<u>\$ 167,880,384</u>	<u>\$ 5,506,893</u>