

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2011 and 2012 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of September 30, 2011 and 2012, 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, 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 2012 New Taiwan dollars amounts into U.S. dollars has been reviewed on the basis stated in Note 3 to the financial statements.

October 26, 2012

Notice to Readers

The accompanying 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, 2011 AND 2012
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2011	2012		LIABILITIES AND STOCKHOLDERS' EQUITY	2011	2012	
	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents (Notes 2 and 5)	\$ 104,820,790	\$ 50,516,048	\$ 1,723,303	Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	\$ -	\$ 137,633	\$ 4,695
Financial assets at fair value through profit or loss - current (Notes 2, 6 and 24)	220,609	-	-	Hedging derivative liabilities - current (Notes 2, 8 and 24)	-	82,213	2,805
Available-for-sale financial assets - current (Notes 2 and 7)	734,698	50,520	1,724	Notes and accounts payable (Note 25)	88,648,926	64,776,187	2,209,773
Accounts receivable, net (Notes 2, 9 and 25)	74,371,757	40,798,544	1,391,800	Income tax payable (Notes 2 and 22)	10,019,091	3,895,103	132,877
Restricted assets - current (Note 26)	-	3,645,820	124,373	Accrued expenses (Notes 18 and 25)	53,357,461	37,274,487	1,271,581
Other receivables - related parties (Note 25)	143	6,619,951	225,833	Payable for purchase of equipment	1,043,469	1,795,161	61,240
Other current financial assets (Note 10)	2,023,451	1,090,580	37,204	Other current liabilities (Notes 2, 19 and 25)	19,510,971	14,767,264	503,770
Inventories (Notes 2 and 11)	31,865,411	21,396,402	729,916	Total current liabilities	172,579,918	122,728,048	4,186,741
Prepayments (Notes 12 and 25)	6,340,130	5,741,555	195,867	OTHER LIABILITIES			
Deferred income tax assets (Notes 2 and 22)	2,436,806	4,080,578	139,205	Guarantee deposits received	37,000	122,830	4,190
Other current assets	1,126,671	674,769	23,019	Total liabilities	172,616,918	122,850,878	4,190,931
Total current assets	223,940,466	134,614,767	4,592,244	EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF PARENT (Note 20)			
LONG-TERM INVESTMENTS				Capital stock - NT\$10.00 par value			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	406	183	6	Authorized: 1,000,000 thousand shares			
Held-to-maturity financial assets - noncurrent (Notes 2 and 13)	205,441	202,070	6,893	Issued and outstanding: 862,052 thousand shares in 2011 and 852,052 thousand shares in 2012			
Financial assets carried at cost - noncurrent (Notes 2 and 14)	3,061,328	3,962,435	135,174	Common stock	8,620,521	8,520,521	290,669
Investments accounted for by the equity method (Notes 2 and 15)	76,214	5,663,059	193,190	Capital surplus			
Total long-term investments	3,343,389	9,827,747	335,263	Additional paid-in capital - issuance of shares in excess of par	14,983,419	14,809,608	505,215
PROPERTIES (Notes 2, 16 and 25)				Treasury stock transactions	1,750,767	1,730,458	59,033
Cost				Long-term equity investments	18,411	18,037	615
Land	7,616,575	7,617,206	259,853	Merger	24,710	24,423	833
Buildings and structures	5,652,625	11,731,796	400,218	Expired stock options	37,503	37,068	1,266
Machinery and equipment	10,289,188	12,634,332	431,007	Retained earnings			
Molding equipment	172,632	-	-	Legal reserve	10,273,674	16,471,254	561,900
Computer equipment	669,422	865,386	29,522	Special reserve	580,856	-	-
Transportation equipment	7,735	7,695	263	Accumulated earnings	73,033,196	52,668,072	1,796,716
Furniture and fixtures	333,192	464,880	15,859	Other equity			
Leased assets	5,939	6,754	230	Cumulative translation adjustments (Note 2)	312,933	(1,008,358)	(34,399)
Leasehold improvements	439,383	535,846	18,280	Net loss not recognized as pension cost	(121)	(293)	(10)
	25,186,691	33,863,895	1,155,232	Unrealized gain (loss) on financial instruments (Notes 2 and 24)	1,733	(66,368)	(2,264)
Less: Accumulated depreciation	(6,852,984)	(8,681,242)	(296,152)	Treasury stock (Notes 2 and 21)	(18,824,770)	(14,065,490)	(479,830)
Prepayments for construction-in-progress and equipment-in-transit	2,020,065	358,678	12,236	Total stockholders' equity	90,812,832	79,138,932	2,699,744
Properties, net	20,353,772	25,541,331	871,316				
INTANGIBLE ASSETS (Notes 2 and 17)							
Patents	2,135,822	9,661,596	329,596				
Goodwill	1,851,632	1,594,872	54,407				
Deferred pension cost	416	342	12				
Other intangible assets	636,463	862,122	29,410				
Total intangible assets	4,624,333	12,118,932	413,425				
OTHER ASSETS							
Refundable deposits	159,789	185,409	6,325				
Deferred charges (Note 2)	556,417	960,736	32,775				
Long-term receivable (Note 14)	-	4,397,025	150,000				
Deferred income tax assets (Notes 2 and 22)	4,104,499	4,335,863	147,914				
Restricted assets - noncurrent (Note 26)	71,095	4,507	154				
Others (Notes 2 and 12)	6,275,990	10,003,493	341,259				
Total other assets	11,167,790	19,887,033	678,427				
TOTAL	\$ 263,429,750	\$ 201,989,810	\$ 6,890,675	TOTAL	\$ 263,429,750	\$ 201,989,810	\$ 6,890,675

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, 2011 AND 2012 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)			
Sales	\$ 365,595,597	\$ 225,959,550	\$ 7,708,378
Sales returns and allowances	<u>(1,722,464)</u>	<u>(2,706,093)</u>	<u>(92,316)</u>
Net sales	363,873,133	223,253,457	7,616,062
Other operating revenues	<u>502,491</u>	<u>5,753,838</u>	<u>196,287</u>
Total revenues	364,375,624	229,007,295	7,812,349
COST OF REVENUES (Notes 11 and 25)	<u>260,082,053</u>	<u>169,899,456</u>	<u>5,795,946</u>
GROSS PROFIT	<u>104,293,571</u>	<u>59,107,839</u>	<u>2,016,403</u>
OPERATING EXPENSES (Notes 25)			
Selling and marketing	29,952,904	23,934,412	816,498
General and administrative	4,700,306	4,860,906	165,825
Research and development	<u>13,746,247</u>	<u>12,099,522</u>	<u>412,763</u>
Total operating expenses	<u>48,399,457</u>	<u>40,894,840</u>	<u>1,395,086</u>
OPERATING INCOME	<u>55,894,114</u>	<u>18,212,999</u>	<u>621,317</u>
NONOPERATING INCOME AND GAINS			
Interest income (Note 25)	493,203	449,127	15,322
Gain on equity-method investments (Notes 2 and 15)	-	125,656	4,287
Gains on sale of investments, net	29	-	-
Exchange gains (Note 2)	1,528,938	743,824	25,375
Valuation gain on financial assets, net (Notes 2 and 6)	220,609	-	-
Other	<u>220,378</u>	<u>397,451</u>	<u>13,558</u>
Total nonoperating income and gains	<u>2,463,157</u>	<u>1,716,058</u>	<u>58,542</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	18,370	1,555	53
Losses on disposal of properties	363	1,634	56
Loss on sale of investments, net (Notes 2 and 15)	-	165,184	5,635
Impairment losses (Notes 2, 14 and 17)	18,608	1,211,649	41,334
Valuation loss on financial instruments, net (Notes 2 and 6)	-	131,325	4,480
Other	<u>19,117</u>	<u>91,400</u>	<u>3,118</u>
Total nonoperating expenses and losses	<u>56,458</u>	<u>1,602,747</u>	<u>54,676</u>

(Continued)

HTC CORPORATION AND SUBSIDIARIES

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
INCOME BEFORE INCOME TAX	\$ 58,300,813	\$ 18,326,310	\$ 625,183
INCOME TAX (Notes 2 and 22)	<u>(7,268,630)</u>	<u>(1,746,526)</u>	<u>(59,581)</u>
NET INCOME	<u>\$ 51,032,183</u>	<u>\$ 16,579,784</u>	<u>\$ 565,602</u>
ATTRIBUTABLE TO			
Stockholders of the parent	\$ 51,032,183	\$ 15,771,566	\$ 538,031
Minority interest	<u>-</u>	<u>808,218</u>	<u>27,571</u>
	<u>\$ 51,032,183</u>	<u>\$ 16,579,784</u>	<u>\$ 565,602</u>

	2011		2012			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 23)	<u>\$ 67.79</u>	<u>\$ 60.20</u>	<u>\$ 19.55</u>	<u>\$ 0.67</u>	<u>\$ 18.95</u>	<u>\$ 0.65</u>
DILUTED EARNINGS PER SHARE (Note 23)	<u>\$ 67.01</u>	<u>\$ 59.51</u>	<u>\$ 19.45</u>	<u>\$ 0.66</u>	<u>\$ 18.86</u>	<u>\$ 0.64</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012

(In Thousands)

(Reviewed, Not Audited)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 51,032,183	\$ 16,579,784	\$ 565,602
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,066,871	1,622,547	55,352
Amortization	472,362	1,528,956	52,159
Compensation cost recognized for the transfer of treasury stock to employees	1,788,270	-	-
Amortization of premium on financial assets	2,505	2,527	86
Prepaid pension costs	(19,608)	(16,615)	(567)
Gain on equity-method investments	-	(125,656)	(4,287)
Losses on disposal of properties	363	1,634	56
Transfer of properties to expenses	282	28,228	963
(Gain) loss on sale of investments, net	(29)	165,184	5,635
Unrealized gain on financial instruments	-	(6,308)	(215)
Impairment losses	18,608	1,211,649	41,334
Deferred income tax assets	(3,123,621)	(2,494,724)	(85,105)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	265,296	394,501	13,458
Accounts receivable	(12,634,103)	20,340,300	693,888
Other receivables - related parties	(15)	966	33
Inventories	(5,451,664)	5,120,375	174,676
Prepayments	(2,490,283)	(266,614)	(9,095)
Other current assets	(358,846)	14,226	485
Other current financial assets	(1,240,039)	297,512	10,149
Other assets-others	(3,580,361)	(1,314,448)	(44,841)
Notes and accounts payable	25,379,698	(8,922,164)	(304,370)
Income tax payable	3,199,791	(6,675,564)	(227,730)
Accrued expenses	24,077,690	(6,583,929)	(224,604)
Other current liabilities	6,400,289	(2,308,310)	(78,745)
Net cash provided by operating activities	<u>84,805,639</u>	<u>18,594,057</u>	<u>634,317</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	(490,000)	-	-
Proceeds of the sale of available-for-sale financial assets	200,029	829,071	28,283
Increase in financial assets carried at cost	(1,937,631)	(1,927,162)	(65,743)
Acquisition of investments accounted for by equity method	(76,214)	-	-
Acquisition of a subsidiary	(1,844,580)	(100,665)	(3,434)

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012

(In Thousands)

(Reviewed, Not Audited)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Purchase of properties	\$ (6,337,808)	\$ (5,237,069)	\$ (178,657)
Proceeds of the sale of properties	525	36,611	1,249
Increase in refundable deposits	(8,929)	(8,985)	(307)
Loan to related parties	-	(6,619,951)	(225,833)
Increase in deferred charges	(319,086)	(282,021)	(9,621)
Decrease (increase) in restricted assets	24,593	(3,581,627)	(122,184)
Increase in intangible assets	(2,174,400)	(509,339)	(17,375)
Loss of a subsidiary	-	(499,389)	(17,036)
Net cash used in investing activities	<u>(12,963,501)</u>	<u>(17,900,526)</u>	<u>(610,658)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in long-term bank loans	(24,376)	-	-
Increase in guarantee deposits received	23,041	79,884	2,725
Cash dividends	(29,891,089)	(33,249,085)	(1,134,258)
Purchase of treasury stock	(16,086,098)	(3,700,346)	(126,234)
Transfer treasury stock to employees	4,113,821	-	-
Decrease in minority interest	-	(1,459,370)	(49,785)
Net cash used in financing activities	<u>(41,864,701)</u>	<u>(38,328,917)</u>	<u>(1,307,552)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>380,492</u>	<u>649,926</u>	<u>22,171</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,357,929	(36,985,460)	(1,261,722)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>74,462,861</u>	<u>87,501,508</u>	<u>2,985,025</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 104,820,790</u>	<u>\$ 50,516,048</u>	<u>\$ 1,723,303</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	<u>\$ 19,588</u>	<u>\$ 1,555</u>	<u>\$ 53</u>
Income tax	<u>\$ 7,182,577</u>	<u>\$ 10,916,814</u>	<u>\$ 372,416</u>

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012

(In Thousands)

(Reviewed, Not Audited)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
NONCASH INVESTING AND FINANCING			
ACTIVITIES			
Transfer of retained earnings to stock dividends for distribution	\$ 403,934	\$ -	\$ -
Transfer of assets leased to others to properties	\$ 50,828	\$ -	\$ -
Transfer of accrued stock bonus to employees to stock dividends for distribution and other capital surplus	\$ 4,245,851	\$ -	\$ -
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 6,994,167	\$ 6,219,990	\$ 212,188
Increase in payables for the purchase of equipment	(601,493)	(982,921)	(33,531)
Increase in lease payable	(54,866)	-	-
Cash paid for purchase of properties	<u>\$ 6,337,808</u>	<u>\$ 5,237,069</u>	<u>\$ 178,657</u>
ACQUISITION OF A SUBSIDIARY			
Net cash outflow on the acquisition of a subsidiary	\$ 1,849,800	\$ 45,021	\$ 1,536
Increase in other payable	(5,220)	55,644	1,898
Cash paid for acquisition of a subsidiary	<u>\$ 1,844,580</u>	<u>\$ 100,665</u>	<u>\$ 3,434</u>
CASH RECEIVED FROM DISPOSAL OF SUBSIDIARY			
Proceeds of the sale of subsidiary	\$ -	\$ 4,397,025	\$ 150,000
Increase in long - term receivable	-	(4,397,025)	(150,000)
Cash received from disposal of subsidiary	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2011 AND 2012 (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, assemble, process, and sell smart handheld devices and provide after-sales service. In March 2002, HTC had its stock listed on the Taiwan Stock Exchange. On November 19, 2003, HTC listed some of its shares of stock on the Luxembourg Stock Exchange in the form of Global Depositary Receipts.

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company”, had 16,749 and 16,888 employees as of September 30, 2011 and 2012, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

Significant accounting policies are summarized as follows:

Principles of Consolidation

All majority-owned subsidiaries or controlled entities, even though HTC owns less than 50% of the voting rights of the investee companies directly or indirectly, are included in the consolidated financial statements.

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, 2011 and 2012 were as follows:

Investor	Investee	Main Businesses	% of Ownership		Remark
			2011	2012	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	100.00	100.00	Incorporated in August 2000
	Communication Global Certification Inc.	Telecom testing and certification services	100.00	100.00	Investment received in January 2007
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	Incorporated in July 2007
	HTC Investment Corporation	General investing activities	100.00	100.00	Incorporated in July 2008

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2011	2012	
HTC Corporation	PT. High Tech Computer Indonesia	Marketing, repair 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 company	1.00	1.00	Incorporated in October 2009
	Huada Digital Corporation	Software service	100.00	50.00	Incorporated in January 2010; change in ownership percentage in October 2011. In March 2012, investment type change to joint venture and HTC lost significant influence.
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	Incorporated in August 2011
	FunStream Corporation	Design, research and development of three-D technology	-	100.00	Investment received in February 2012
H.T.C. (B.V.I.) Corp.	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 investment received in July 2005
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer (H.K.) Limited	Marketing, repair and after-sales service	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 (Thailand) Limited	"	100.00	100.00	Incorporated in November 2007 and investment received in September 2008
	HTC India Private Ltd.	"	99.00	99.00	Incorporated in January 2008
	HTC Malaysia Sdn. Bhd.	"	100.00	100.00	Incorporated in July 2008 and investment received in January 2009
	HTC Innovation Limited	"	100.00	100.00	Incorporated in January 2009
	HTC Communication Co., Ltd.	Sale of smart handheld devices	100.00	100.00	Incorporated in December 2008 and investment received in March 2009
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	Incorporated in August 2006 and was acquired from HTC in December 2009 for Company reorganization
	HTC Holding Cooperatief U.A.	International holding company	99.00	99.00	Incorporated in October 2009
	HTC Communication Technologies (SH)	Design, research and development of application software	-	100.00	Incorporated in November 2011
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	-	100.00	Incorporated in September 2012
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	-	100.00	Investment received in November 2011
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Repair and after-sales services	100.00	100.00	Incorporated in July 2007 and was acquired from a direct subsidiary of HTC in December 2009 for Company reorganization
HTC HK, Limited	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2007; investment received in July 2008; and was acquired from a direct subsidiary of HTC in February 2010 for Company reorganization

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Investor	Investee	Main Businesses	% of Ownership		Remark
			2011	2012	
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	Incorporated in October 2009
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	Incorporated in January 2008 and was acquired from an indirect subsidiary of HTC in February 2010 for Company reorganization
	HTC South Eastern Europe Limited Liability Company	"	0.67	0.67	Incorporated in June 2010
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company Marketing, repair and after-sales services	100.00	100.00	Incorporated in July 2003, and was acquired from a direct subsidiary of HTC in February 2010 for Company reorganization
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	Incorporated in October 2006, and was acquired from a direct subsidiary of HTC in February 2010 for Company reorganization
	HTC Belgium BVBA/SPRL	"	100.00	100.00	Incorporated in October 2006, and was acquired from an indirect subsidiary of HTC in March 2010 for Company reorganization
	HTC NIPPON Corporation	Marketing, repair, after-sales services and sale of smart handheld devices	100.00	100.00	Incorporated in March 2006, and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	Incorporated in April 2010
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	Incorporated in June 2010
	HTC Nordic ApS.	"	100.00	100.00	Incorporated in July 2006, and was acquired from an indirect subsidiary of HTC in October 2010 for Company reorganization
	HTC Italia SRL	"	100.00	100.00	Incorporated in February 2007, and was acquired from an indirect subsidiary of HTC in October 2010 for Company reorganization
	HTC Germany GmbH	"	100.00	100.00	Incorporated in October 2010
	HTC Iberia, S.L.	"	100.00	100.00	Incorporated in October 2010
	HTC Poland sp. z.o.o.	"	100.00	100.00	Incorporated in October 2010
	Saffron Media Group Ltd.	International holding company, design, research and development of application software	100.00	100.00	Investment received in January 2011
	HTC Communication Canada, Ltd.	Marketing, repair and after-sales services	100.00	100.00	Incorporated in April 2011
	HTC Norway AS	"	100.00	100.00	Incorporated in August 2011
HTC RUS LLC	"	100.00	100.00	Incorporated in June 2011, and investment received in August 2011.	
HTC Communication Sweden AB	"	100.00	100.00	Incorporated in September 2011	
HTC Netherlands B.V.	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	Incorporated in May 2011
	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	-	100.00	Incorporated in September 2012
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	Incorporated in April 2010

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2011	2012	
HTC FRANCE CORPORATION	ABAXIA SAS	International holding company, design, research and development of application software	100.00	100.00	Investment received in July 2010
HTC America Holding Inc.	HTC America Inc.	Sale of smart handheld devices	100.00	100.00	Incorporated in January 2003 and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization
	One & Company Design, Inc.	Design, research and development of application software	100.00	100.00	Investment received in October 2008, and was acquired from a direct subsidiary of HTC in April 2010 for Company reorganization
	HTC America Innovation Inc.	"	100.00	100.00	Incorporated in April 2010, and investment received in October 2010
	HTC America Content Services, Inc.	Online/download media services	100.00	100.00	Incorporated in April 2011
	Dashwire, Inc.	Design, research and development of wireless connectivity software	100.00	100.00	Investment received in August 2011
	Beats Electronics, LLC	Design, research and development of audio technology	-	25.14	Investment received in October 2011. HTC has lost control of the subsidiary since August, 2012, due to the partial disposal of its shares, and accounted for the investment by equity method.
	Inquisitive Minds, Inc.	Development and sale of digital education platform	-	100.00	Investment received in October 2011
ABAXIA SAS	HTC BLR	Design, research and development of application software	100.00	100.00	Investment received in July 2010
Saffron Media Group Ltd.	Saffron Digital Ltd.	Design, research and development of application software	100.00	100.00	Investment received in January 2011
	Saffron Digital Inc.	"	100.00	100.00	Investment received in January 2011

(Concluded)

In February 2012, HTC acquired FunStream Corporation. In March 2012, HTC changed the investment type of Huada Digital Corporation to joint venture and accounted for this investment by the equity method. In August 2012, HTC has lost control of Beats Electronics, LLC due to the partial disposal of its shares and accounted for the investment by equity method. In January 2011, HTC wholly acquired the shares issued by Saffron Media Group Ltd. In August 2011, HTC wholly acquired the shares issued by Dashwire, Inc. The net assets of Dashwire, Inc., Saffron Media Group Ltd. and FunStream Corporation were as follows:

	Dashwire, Inc.	Saffron Media Group Ltd.	FunStream Corporation	
	NT\$	NT\$	NT\$	US\$
Cash on hand and in banks	\$ 8,860	\$ 18,945	\$ 69	\$ 2
Other current assets	2,756	161,622	4	-
Properties	1,247	8,629	-	-
Other assets	40,164	1,130	-	-
Current liabilities	<u>(111,898)</u>	<u>(142,250)</u>	<u>-</u>	<u>-</u>
Net assets	<u>\$ (58,871)</u>	<u>\$ 48,076</u>	<u>\$ 73</u>	<u>\$ 2</u>

(Continued)

	<u>Dashwire, Inc.</u>	<u>Saffron Media Group Ltd.</u>	<u>FunStream Corporation</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Cash consideration	\$ 483,888	\$ 1,393,717	\$ 45,090	\$ 1,538
Cash on hand and in banks	<u>(8,860)</u>	<u>(18,945)</u>	<u>(69)</u>	<u>(2)</u>
Net cash outflow on the acquisition of subsidiaries	<u>\$ 475,028</u>	<u>\$ 1,374,772</u>	<u>\$ 45,021</u>	<u>\$ 1,536</u> (Concluded)

Foreign Currencies

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

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

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

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

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

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

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

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

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

Accounting Estimates

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

Current/Noncurrent Assets and Liabilities

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

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

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

Available-for-sale Financial Assets

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

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

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

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

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

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

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

Inventories

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

Held-to-maturity Financial Assets

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

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

Hedge Accounting

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

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

a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

Financial Assets Carried at Cost

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

Investments Accounted for by the Equity Method

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

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

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

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

Properties

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

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

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

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

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

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

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Effective January 1, 2006, based on a newly released SFAS No. 37 - "Intangible Assets," 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 computer software costs, deferred license fees and the right to the use of the land. Computer software are amortized on a straight-line basis over 3 years, deferred license fees, over 5 years and land use rights, 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 first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

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

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

Accrued Marketing Expenses

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

Warranty Provisions

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

Provisions for Contingent Loss on Purchase Orders

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

Product-related Costs

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

Pension Plan

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

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

Income Tax

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

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

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

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

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

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

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

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

Reclassifications

Certain 2011 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the nine months ended September 30, 2012.

3. TRANSLATION INTO U.S. DOLLARS

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2012 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$29.3135 to US\$1.00 quoted by Reuters on September 30, 2012. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. ACCOUNTING CHANGES

Financial Instruments

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

Operating Segments

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

5. CASH AND CASH EQUIVALENTS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 6,305	\$ 27,615	\$ 942
Checking accounts	50,061	10,563	360
Demand deposits	42,988,021	36,511,194	1,245,542
Time deposits	<u>61,776,403</u>	<u>13,966,676</u>	<u>476,459</u>
	<u>\$ 104,820,790</u>	<u>\$ 50,516,048</u>	<u>\$ 1,723,303</u>

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

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

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

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

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

Forward Exchange Contracts

				2011
	Buy/Sell	Currency	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
				2012
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2012.10.03-2012.11.30	EUR 135,000
Forward exchange contracts	Sell	GBP/USD	2012.10.03-2012.11.30	GBP 25,300
Forward exchange contracts	Sell	USD/NTD	2012.10.04-2012.10.30	USD 75,000
Forward exchange contracts	Buy	USD/RMB	2012.10.17-2012.11.14	USD 185,000
Forward exchange contracts	Buy	USD/JPY	2012.10.24	USD 31,998
Forward exchange contracts	Buy	USD/CAD	2012.10.17-2012.11.28	USD 10,832
Forward exchange contracts	Buy	USD/NTD	2012.10.15-2012.10.31	USD 35,000

Net loss on derivative financial instruments for the nine months ended September 30, 2011 was NT\$367,603 thousand, including realized settlement loss of NT\$588,212 thousand and valuation gain of NT\$220,609 thousand, and were classified as exchange loss and valuation gain on financial instruments, respectively.

Net gain on derivative financial instruments for the nine months ended September 30, 2012 was NT\$483,705 thousand (US\$16,501 thousand), including realized settlement gain of NT\$621,338 thousand (US\$21,196 thousand) and valuation loss of NT\$137,633 thousand (US\$4,695 thousand), and were classified as exchange gain and valuation loss on financial instruments, respectively. Note 24 has more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ 734,698	\$ 50,520	\$ 1,724
Quoted stocks	406	183	6
Less: Current portion	<u>(734,698)</u>	<u>(50,520)</u>	<u>(1,724)</u>
	<u>\$ 406</u>	<u>\$ 183</u>	<u>\$ 6</u>

8. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

9. ACCOUNTS RECEIVABLE

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Accounts receivable	\$ 75,925,731	\$ 42,641,165	\$ 1,454,659
Accounts receivable from related parties	<u> 34</u>	<u>219,851</u>	<u>7,500</u>
	75,925,765	42,861,016	1,462,159
Less: Allowance for doubtful accounts	<u>(1,554,008)</u>	<u>(2,062,472)</u>	<u>(70,359)</u>
	\$ <u>74,371,757</u>	\$ <u>40,798,544</u>	\$ <u>1,391,800</u>

10. OTHER CURRENT FINANCIAL ASSETS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 1,678,903	\$ 1,067,556	\$ 36,418
Interest receivable	24,265	15,763	538
Agency payments	316,255	3,333	114
Others	<u>4,028</u>	<u>3,928</u>	<u>134</u>
	<u>\$ 2,023,451</u>	<u>\$ 1,090,580</u>	<u>\$ 37,204</u>

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

11. INVENTORIES

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 1,575,583	\$ 2,946,547	\$ 100,518
Work-in-process	5,658,344	2,801,199	95,560
Semi-finished goods	3,595,043	3,548,691	121,060
Raw materials	20,671,429	11,536,159	393,544
Goods in transit	<u>365,012</u>	<u>563,806</u>	<u>19,234</u>
	<u>\$ 31,865,411</u>	<u>\$ 21,396,402</u>	<u>\$ 729,916</u>

As of September 30, 2011 and 2012, the allowance for inventory devaluation was NT\$4,595,570 thousand and NT\$4,140,392 thousand (US\$141,245 thousand), respectively.

The write-down of inventories to their net realizable value amounting to NT\$2,371,982 thousand and NT\$1,122,639 thousand (US\$38,298 thousand) were recognized as cost of sales for the nine months ended September 30, 2011 and 2012, respectively.

12. PREPAYMENTS

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 5,093,400	\$ 3,637,913	\$ 124,104
Prepayments to suppliers	390,285	941,613	32,122
Software and hardware maintenance	261,077	700,969	23,913

(Continued)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Net input VAT	\$ 195,563	\$ 174,647	\$ 5,958
Marketing	156,659	102,557	3,498
Molding equipment	122,216	67,261	2,295
Rental	61,072	43,896	1,497
Others	<u>59,858</u>	<u>72,699</u>	<u>2,480</u>
	<u>\$ 6,340,130</u>	<u>\$ 5,741,555</u>	<u>\$ 195,867</u> (Concluded)

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent in accordance with their nature. As of September 30, 2011 and 2012, noncurrent prepayments of NT\$3,099,196 thousand and NT\$7,525,495 thousand (US\$256,725 thousand), respectively, had been classified as other assets (Note 28 has more information).

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

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

13. HELD-TO-MATURITY FINANCIAL ASSETS

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

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

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

14. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of September 30, 2011 and 2012 were as follows:

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 17,057
Answer Online, Inc.	1,192	1,192	41
BandRich Inc.	15,861	15,861	541
			(Continued)

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
SoundHound Inc.	\$ 60,971	\$ 65,291	\$ 2,227
GSUO Inc.	152,428	234,508	8,000
Felicis Ventures II LP	57,160	109,926	3,750
WI Harper Fund VII	27,437	65,955	2,250
NETQIN MOBILE Inc.	76,214	-	-
Luminous Optical Technology Co., Ltd.	183,000	183,000	6,243
OnLive, Inc.	1,219,420	-	-
KKBOX Inc.	304,855	293,135	10,000
TransLink Capital Partners II, L.P.	45,728	140,705	4,800
Shanghai F-road Commercial Co., Ltd.	167,229	161,583	5,512
Primavera Capital (Cayman) Fund L.L.P.	251,025	1,154,235	39,376
Magnet Systems Inc.	-	<u>1,038,236</u>	<u>35,418</u>
	<u>3,062,520</u>	<u>3,963,627</u>	<u>135,215</u>
Less: Accumulated impairment loss	<u>(1,192)</u>	<u>(1,192)</u>	<u>(41)</u>
	<u>\$ 3,061,328</u>	<u>\$ 3,962,435</u>	<u>\$ 135,174</u> (Concluded)

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

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

In April 2006, HTC acquired 92% equity interest in BandRich Inc. for NT\$135,000 thousand and accounted for this investment by the equity method. After that, HTC's ownership percentage declined from 92% to 18.08% and lost its significant influence on this investee. In July 2010, HTC transferred this investment to "financial assets carried at cost" using book value of NT\$15,861 thousand.

In July 2009, through H.T.C. (B.V.I.) Corp. ("HTC BVI"), HTC made an investment in SoundHound Inc. As of September 30, 2012, HTC's investment in SoundHound Inc. had amounted to US\$2,227 thousand (NT\$65,291 thousand), and the ownership percentage was 4.50%.

In May 2010, through HTC BVI, HTC made an investment in GSUO Inc. As of September 30, 2012, HTC's investment in GSUO Inc. had amounted to US\$8,000 thousand (NT\$234,508 thousand), and the ownership percentage was 11.15%.

In September 2010, through HTC BVI, HTC made an investment in Felicis Ventures II LP. As of September 30, 2012, HTC's investment in Felicis Ventures II LP had amounted to US\$3,750 thousand (NT\$109,926 thousand).

In August 2010, through HTC BVI, HTC made an investment in WI Harper Fund VII. As of September 30, 2012, HTC's investment had amounted to US\$2,250 thousand (NT\$65,955 thousand).

In December 2010, through HTC BVI, HTC invested US\$2,500 thousand in NETQIN MOBILE Inc. In January 2012, because the fair value could be reliably measured, HTC transferred this investment with holding purpose to "available for sale financial assets - current".

In December 2010, through HTC Investment Corporation and HTC I Investment Corporation, HTC made an investment in Luminous Optical Technology Co., Ltd. As of September 30, 2012, HTC's investment in Luminous Optical Technology Co., Ltd. had amounted to US\$6,243 thousand (NT\$183,000 thousand), and the ownership percentage was 10.02%.

In February 2011, through HTC BVI, HTC made an investment in OnLive, Inc. for US\$40,000 thousand, and the ownership percentage was 3.79%. In August 2012, OnLive, Inc. declared to implement asset restructuring due to lack of operating cash and an inability to raise new capital. HTC assessed that the investment can not be recovered, and thus recognized an impairment loss of US\$40,000 thousand (NT\$1,199,045 thousand).

In March 2011, through HTC BVI, HTC made an investment in KKBOX Inc. As of September 30, 2012, HTC's investment in KKBOX Inc. had amounted to US\$10,000 thousand (NT\$293,135 thousand), and the ownership percentage was 11.11%.

In June 2011, through HTC BVI, HTC made an investment in TransLink Capital Partners II, L.P. As of September 30, 2012, HTC's investment in TransLink Capital Partners II, L.P. had amounted to US\$4,800 thousand (NT\$140,705 thousand).

In May 2011, through HTC HK Limited, HTC made an investment in Shanghai F-road Commercial Co. As of September 30, 2012, HTC's investment in Shanghai F-road Commercial Co., Ltd. had amounted to US\$5,500 thousand (NT\$161,583 thousand), and the ownership percentage was 14.49%.

In August 2011, through HTC Investment One (BVI) Corporation, HTC made an investment in Primavera Capital (Cayman) Fund L.L.P. As of September 30, 2012, HTC's investment had amounted to US\$39,376 thousand (NT\$1,154,235 thousand).

In August 2012, through HTC BVI, HTC made an investment in Magnet Systems Inc. As of September 30, 2012, HTC's investment had amounted to US\$35,418 thousand (NT\$1,038,236 thousand), and the ownership percentage was 17.10%.

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

15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

	2011		2012		Ownership Percentage
	Carrying Value NT\$	Ownership Percentage	Carrying Value NT\$	Carrying Value US\$ (Note 3)	
Unquoted equity investments					
Huada Digital Corporation	\$ -	-	\$ 245,214	\$ 8,365	50.00
SYNCTV Corporation	76,214	20.00	57,090	1,948	20.00
Beats Electronics, LLC	-	-	<u>5,360,755</u>	<u>182,877</u>	25.14
	<u>\$ 76,214</u>		<u>\$ 5,663,059</u>	<u>\$ 193,190</u>	

In December 2009, HTC acquired 100% equity interest in Huada Digital Corporation ("Huada"), of which main business activities were software services, for NT\$245,000 thousand and accounted for this investment by the equity method. In September 2011, HTC increased this investment by NT\$5,000 thousand. As of September 30, 2012, HTC's investment in Huada had amounted to NT\$250,000 thousand (US\$8,528 thousand). In September 2011, the Fair Trade Commission Executive Yuan, R.O.C. (Taiwan) approved an investment by Chunghwa Telecom Co., Ltd. ("CHT") in Huada and the registration of this

investment was completed in October 2011. After CHT's investment, HTC's ownership percentage declined from 100% to 50%. In March 2012, Huada held a stockholders' meeting and re-elected its directors and supervisors. As a result, the investment type was changed to joint venture and the Company accounted for this investment by the equity method.

In September 2011, through HTC America Holding Inc., HTC acquired 20% equity interest in SYNCTV Corporation for US\$2,500 thousand and accounted for this investment by the equity method.

In October 2011, HTC acquired, through HTC America Holding Inc. ("HTCA Holding"), 50.14% equity interest in Beats Electronics, LLC. ("Beats") for US\$300,000 thousand. In July 2012, HTC sold back 25% of Beats shares to the founding members of Beats for US\$150,000 thousand with a cost amounting to US\$157,144 thousand (including initial investment cost of US\$150,000 thousand and an accumulated gain of US\$7,144 thousand on equity method investment). This transaction resulted in a loss on disposal of US\$7,144 thousand (NT\$214,268 thousand).

Three-year non-recourse secured promissory notes (the "Notes"), totaling US\$150,000 thousand (NT\$4,397,025 thousand), were issued by the buying party and accounted for under "long-term receivable". These Notes, payable at the maturity in three years, bear interest based on LIBOR plus 1% and was secured by pledge of interest obtained by the buying party in this transaction. After the transaction, HTCA Holding remained 25.14% of the shareholdings in Beats and accounted for this investment by the equity method.

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Huada Digital Corporation	\$ -	\$ (5,475)	\$ (187)
SYNCTV Corporation	-	(12,498)	(426)
Beats Electronics, LLC	<u>-</u>	<u>143,629</u>	<u>4,900</u>
	<u>\$ -</u>	<u>\$ 125,656</u>	<u>\$ 4,287</u>

The financial statements of equity-method investees had been reviewed by the Company's independent accountants, except Huada Digital Corporation and SYNCTV Corporation.

16. PROPERTIES

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

	<u>2011</u>		<u>2012</u>		
	<u>Carrying Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Value</u>	
	NT\$		NT\$	NT\$	NT\$
Land	\$ 7,616,575	\$ 7,617,206	\$ -	\$ 7,617,206	\$ 259,853
Buildings and structures	4,690,285	11,731,796	1,206,579	10,525,217	359,057
Machinery and equipment	5,285,518	12,634,332	6,540,257	6,094,075	207,893
Computer equipment	291,009	865,386	508,986	356,400	12,158
Transportation equipment	4,207	7,695	4,564	3,131	107
Furniture and fixtures	133,865	464,880	251,388	213,492	7,283
Leased assets	506	6,754	5,275	1,479	50

(Continued)

	2011		2012		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Leasehold improvements	\$ 311,742	\$ 535,846	\$ 164,193	\$ 371,653	\$ 12,679
Prepayments for construction-in-progress and equipment-in-transit	<u>2,020,065</u>	<u>358,678</u>	<u>-</u>	<u>358,678</u>	<u>12,236</u>
	<u>\$ 20,353,772</u>	<u>\$ 34,222,573</u>	<u>\$ 8,681,242</u>	<u>\$ 25,541,331</u>	<u>\$ 871,316</u>

(Concluded)

In April 2011, HTC bought land with areas of approximately 49 thousand square meters adjacent to its Taoyuan plant for NT\$1,770,000 thousand, which was based on the appraisal report, from an unrelated party to build up a complete HTC technology park and meet the future capacity expansion requirements.

The construction of a new office building and factory were completed in June 2012, and a construction amount of NT\$5,615,958 thousand (US\$191,583 thousand) was transferred from prepayments for construction in progress to buildings and structures.

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

17. INTANGIBLE ASSETS

Intangible assets as of September 30, 2011 and 2012 were as follows:

	Nine Months Ended September 30, 2011				
	Patents	Goodwill	Deferred Pension Cost	Other	Total
	NT\$	NT\$	NT\$	NT\$	NT\$
<u>Cost</u>					
Balance, beginning of period	\$ 220,943	\$ 569,311	\$ 416	\$ 228,850	\$ 1,019,520
Additions					
Acquisition	2,174,400	-	-	-	2,174,400
The difference between the cost of investment and the Company's share in investees' net assets	-	1,276,790	-	638,538	1,915,328
Translation adjustment	<u>-</u>	<u>99,481</u>	<u>-</u>	<u>13,620</u>	<u>113,101</u>
Balance, end of period	<u>2,395,343</u>	<u>1,945,582</u>	<u>416</u>	<u>881,008</u>	<u>5,222,349</u>
<u>Accumulated amortization</u>					
Balance, beginning of period	12,362	-	-	-	12,362
Amortization	247,159	-	-	243,548	490,707
Translation adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>997</u>	<u>997</u>
Balance, end of period	<u>259,521</u>	<u>-</u>	<u>-</u>	<u>244,545</u>	<u>504,066</u>
<u>Accumulated impairment losses</u>					
Balance, beginning of period	-	71,508	-	-	71,508
Impairment losses	-	18,608	-	-	18,608
Translation adjustment	<u>-</u>	<u>3,834</u>	<u>-</u>	<u>-</u>	<u>3,834</u>
Balance, end of period	<u>-</u>	<u>93,950</u>	<u>-</u>	<u>-</u>	<u>93,950</u>
Net book value, end of period	<u>\$ 2,135,822</u>	<u>\$ 1,851,632</u>	<u>\$ 416</u>	<u>\$ 636,463</u>	<u>\$ 4,624,333</u>

Nine Months Ended September 30, 2012

	<u>Patents</u>	<u>Goodwill</u>	<u>Deferred Pension Cost</u>	<u>Other</u>	<u>Total</u>	
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
<u>Cost</u>						
Balance, beginning of period	\$ 11,608,540	\$ 10,905,878	\$ 342	\$ 911,962	\$ 23,426,722	\$ 799,179
Additions						
Acquisition	11,464	-	-	497,874	509,338	17,375
The difference between the cost of investment and the Company's share in investees' net assets	-	45,017	-	-	45,017	1,536
Reclassification	-	(5,717,960)	-	5,717,960	-	-
Disposal of Subsidiary	(35,323)	(3,485,380)	-	(5,713,752)	(9,234,455)	(315,024)
Translation adjustment	(289,777)	(49,858)	-	(89,133)	(428,768)	(14,627)
Balance, end of period	<u>11,294,904</u>	<u>1,697,697</u>	<u>342</u>	<u>1,324,911</u>	<u>14,317,854</u>	<u>488,439</u>
<u>Accumulated amortization</u>						
Balance, beginning period	456,442	-	-	316,178	772,620	26,357
Amortization	1,192,735	-	-	274,153	1,466,888	50,041
Disposal of Subsidiary	(1,893)	-	-	(115,699)	(117,592)	(4,011)
Translation adjustment	(13,976)	-	-	(11,843)	(25,819)	(881)
Balance, end of period	<u>1,633,308</u>	<u>-</u>	<u>-</u>	<u>462,789</u>	<u>2,096,097</u>	<u>71,506</u>
<u>Accumulated impairment losses</u>						
Balance, beginning period	-	93,314	-	-	93,314	3,184
Impairment losses	-	12,604	-	-	12,604	430
Translation adjustment	-	(3,093)	-	-	(3,093)	(106)
Balance, end of period	<u>-</u>	<u>102,825</u>	<u>-</u>	<u>-</u>	<u>102,825</u>	<u>3,508</u>
Net book value, end of period	<u>\$ 9,661,596</u>	<u>\$ 1,594,872</u>	<u>\$ 342</u>	<u>\$ 862,122</u>	<u>\$ 12,118,932</u>	<u>\$ 413,425</u>

18. ACCRUED EXPENSES

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 33,433,171	\$ 20,006,782	\$ 682,511
Bonus to employees	6,218,734	5,699,212	194,423
Salaries and bonuses	7,183,246	5,286,095	180,330
Services	1,302,546	1,989,216	67,860
Research materials and molding expenses	1,701,307	1,801,352	61,451
Import, export and freight	1,613,210	808,912	27,595
Repairs, maintenance and sundry purchase	259,480	543,073	18,526
Insurance	182,461	232,954	7,947
Meals and welfare	199,450	181,455	6,190
Pension cost	107,013	120,521	4,112
Travel	115,344	81,850	2,792
Donation	480,800	-	-
Others	560,699	523,065	17,844
	<u>\$ 53,357,461</u>	<u>\$ 37,274,487</u>	<u>\$ 1,271,581</u>

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Accrued bonus to employees for current year	\$ 6,088,456	\$ 954,640	\$ 32,567
Cash bonuses approved by the stockholders for prior years	<u>130,278</u>	<u>4,744,572</u>	<u>161,856</u>
	<u>\$ 6,218,734</u>	<u>\$ 5,699,212</u>	<u>\$ 194,423</u>

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

In September 2009, HTC'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 HTC. In June 2012, HTC handed over the foregoing donated building to the HTC Cultural and Educational Foundation. The actual construction cost was NT\$218,636 thousand (US\$7,459 thousand). The difference between the estimated construction cost and the actual construction cost was NT\$836 thousand (US\$29 thousand) and was recognized as an adjustment on the donation to the HTC Cultural and Educational Foundation in 2012.

19. OTHER CURRENT LIABILITIES

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Warranty provision	\$ 13,389,098	\$ 10,831,718	\$ 369,513
Provisions for contingent loss on purchase orders	3,115,779	1,015,948	34,658
Advance receipts	1,567,259	937,133	31,969
Other payable	329,064	506,654	17,284
Agency receipts	267,573	447,504	15,266
Advance revenues	-	152,980	5,219
Others	<u>842,198</u>	<u>875,327</u>	<u>29,861</u>
	<u>\$ 19,510,971</u>	<u>\$ 14,767,264</u>	<u>\$ 503,770</u>

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

Other payables were payables for patents, and agreed installments payable to the original stockholders of subsidiaries.

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

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

20. STOCKHOLDERS' EQUITY

Capital Stock

HTC's outstanding common stock as of January 1, 2011 amounted to NT\$8,176,532 thousand, divided into 817,653 thousand common shares at NT\$10.00 par value. In June 2011, the stockholders approved the transfer of retained earnings of NT\$403,934 thousand and employee bonuses of NT\$40,055 thousand to capital stock. Also, in December 2011, HTC retired 10,000 thousand treasury shares amounting to NT\$100,000 thousand. As a result, the amount of HTC's outstanding common stock as of September 30, 2012 increased to NT\$8,520,521 thousand (US\$290,669 thousand), divided into 852,052 thousand common shares at NT\$10.00 (US\$0.34) par value.

Global Depositary Receipts

In November 2003, HTC issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts (GDRs). For this GDR issuance, HTC's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of stock dividends, the GDRs increased to 9,015.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested HTC to redeem the GDRs to get HTC's common shares. As of September 30, 2012, there were 6,766.1 thousand units of GDRs redeemed, representing 27,064.5 thousand common shares, and the outstanding GDRs represented 8,996 thousand common shares or 1.08% of HTC's common shares.

Capital Surplus

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

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

The additional paid-in capital was NT\$10,777,623 thousand as of January 1, 2011. In June 2011, the bonus to employees of NT\$8,491,704 thousand for 2010 was approved in the stockholders' meeting. Of the approved bonus, NT\$4,245,851 thousand was in the form of common stock, consisting of 4,006 thousand common shares at their fair value, which were distributed in 2011. The difference between par value and fair value of NT\$4,205,796 thousand was accounted for as additional paid-in capital in 2011. In December 2011, the retirement of treasury stock caused a decrease of NT\$173,811 thousand in additional paid-in capital. As a result, the additional paid-in capital as of September 30, 2012 was NT\$14,809,608 thousand (US\$505,215 thousand).

Treasury stock transactions and expired stock options

In June 2011, the Company resolved to transfer treasury shares to employees. In 2011, the number of shares for transfer to employees was 6,000 thousand, with 5,875 thousand shares exercised. Based on the fair value at the grant date, NT\$1,750,767 thousand was accounted for as capital surplus - treasury stock transactions, and NT\$37,503 thousand for the unexercised 125 thousand shares was accounted for as capital surplus - expired stock options. Also, in December 2011, the retirement of treasury stock caused decreases in treasury stock transactions and expired stock options of NT\$20,309 thousand and NT\$435 thousand, respectively. As a result, capital surplus from treasury stock transactions and expired stock options as of September 30, 2012 were NT\$1,730,458 thousand (US\$59,033 thousand) and NT\$37,068 thousand (US\$1,266 thousand), respectively.

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

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

Long-term equity investments

As of January 1, 2011, the capital surplus from long-term equity-method investments was NT\$18,411 thousand. When the Company did not subscribe for the new shares issued by an equity-method investee, Huada Digital Corporation, in September 2011, the Company's total investment carrying value and capital surplus decreased by NT\$374 thousand each in 2011. As a result, the capital surplus from long-term equity-method investments as of September 30, 2012 was NT\$18,037 thousand (US\$615 thousand).

Merger

The additional paid-in capital from a merger was NT\$24,710 thousand as of January 1, 2011. In December 2011, the retirement of treasury stock caused a decrease of NT\$287 thousand in additional paid-in capital from a merger. As a result, the additional paid-in capital from a merger as of September 30, 2012 was NT\$24,423 thousand (US\$833 thousand).

Appropriation of Retained Earnings and Dividend Policy

Under the Company's Articles of Incorporation, if HTC has earnings after the annual final accounting, it shall be allocated in the following order:

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

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

As part of a high-technology industry and as a growing enterprise, HTC 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. HTC's dividend policy stipulates that at least 50% of total dividends may be distributed as cash dividends.

The appropriations of earnings for 2010 and 2011 had been approved in the shareholders' meetings on June 15, 2011 and June 12, 2012, respectively. The appropriations and dividends per share were as follows:

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

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

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

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

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

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

21. TREASURY STOCK

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

On July 16, 2011, HTC's board of directors passed a resolution to buy back 10,000 thousand and 10,000 thousand of its shares from the open market between July 18, 2011 and August 17, 2011, and between August 18, 2011 and September 17, 2011, respectively, with the repurchase price ranging from NT\$900 to NT\$1,100 per share. If HTC's share price was lower than this price range, HTC planned to continue to buy back its shares. HTC bought back 20,000 thousand shares for NT\$16,086,098 thousand during the repurchase period and retired 10,000 thousand shares in December 2011 and completed capital amendment registration in January 2012.

On December 20, 2011, HTC's board of directors passed a resolution to buy back 10,000 thousand of its shares from the open market between December 20, 2011 and February 19, 2012, with the repurchase price ranged from NT\$445 (US\$15) to NT\$650 (US\$22) per share. If HTC's share price becomes lower than this price range, HTC planned to continue to buy back its shares. HTC bought back 6,914 thousand shares (bought back 100 thousand shares in 2011 and 6,814 thousand shares in 2012) for NT\$3,750,056 thousand (US\$127,929 thousand) during the repurchase period. Other treasury stock information for the nine months ended September 30, 2011 and 2012 were as follows:

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

(Continued)

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, 2012</u>				
For transferring shares to the Company's employees	<u>14,011</u>	<u>6,814</u>	<u>—</u>	<u>20,825</u> (Concluded)

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

22. INCOME TAX

Provision for income tax expense (benefit) for the nine months ended September 30, 2011, income tax payable, income tax receivables and deferred tax assets (liabilities) as of September 30, 2011, were as follows:

	2011			
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT\$	NT\$	NT\$	NT\$
HTC Corporation	\$ 6,433,781	\$ 8,949,877	\$ -	\$ 5,794,840
Communication Global Certification Inc.	8,719	7,056	-	214
HTC Investment Corporation	151	-	15	-
HTC I Investment Corporation	116	-	46	-
Huada Digital Corporation	141	-	29	-
High Tech Computer Asia Pacific Pte. Ltd.	8,452	7,878	-	37
HTC Communication Co., Ltd.	185,138	683,146	-	555,270
HTC America Inc.	255,037	-	148,800	95,234
HTC EUROPE CO., LTD.	121,329	124,792	-	9,048
Exedea Inc.	690	37	153	-
HTC NIPPON Corporation	3,397	-	59	-
HTC BRASIL	1,025	-	17	2,463
HTC Corporation (Shanghai WGQ)	1,847	563	-	-
One & Company Design, Inc.	10,854	11,682	-	18,657
HTC Belgium BAVA/SPRL	575	9,090	-	-
HTC HK, Limited	1,744	5,193	-	-
High Tech Computer (H.K.) Limited	2,612	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	8,018	6,575	-	(2,841)
HTC India Private Limited	4,999	4,863	20	(39)

(Continued)

2011

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT\$		NT\$		NT\$		NT\$	
HTC (Thailand) Limited	\$	2,371	\$	1,015	\$	-	\$	-
HTC Electronics (Shanghai) Co., Ltd.		139,370		61,104		-		48,458
HTC Malaysia Sdn. Bhd.		2,795		98		-		270
HTC Innovation Limited		2,158		1,054		-		-
HTC Netherlands B.V.		1,146		1,395		-		-
HTC FRANCE CORPORATION		(28)		673		-		(83,409)
HTC South Eastern Europe Limited liability Company		1,027		1,050		-		-
HTC Nordic ApS.		5,010		5,406		-		(83)
HTC Italia SRL		3,985		-		-		-
HTC Germany GmbH.		5,744		2,596		-		-
HTC Iberia S.L.		3,918		4,186		-		-
HTC Poland sp. z o.o.		16		-		-		2,039
ABAXIA SAS		7,267		-		-		-
HTC America Innovation Inc.		46,785		124,076		-		103,589
Saffron Digital Inc.		(1,559)		5,290		-		(2,442)
Dashwire Inc.		-		396		-		-
		<u>\$ 7,268,630</u>		<u>\$ 10,019,091</u>		<u>\$ 149,139</u>		<u>\$ 6,541,305</u>
								(Concluded)

Provision for income tax expense (benefit) for the nine months ended September 30, 2012, income tax payable, income tax receivables and deferred tax assets (liabilities) as of September 30, 2012, were as follows:

	2012							
	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
HTC Corporation	\$ 495,140	\$ 16,891	\$ 1,445,138	\$ 49,300	\$ -	\$ -	\$ 5,973,387	\$ 203,776
Communication Global Certification Inc.	23,967	818	17,905	611	-	-	241	8
HTC Investment Corporation	246	8	-	-	22	1	-	-
HTC I Investment Corporation	146	5	-	-	63	2	-	-
High Tech Computer Asia Pacific Pte. Ltd.	4,225	144	6,687	228	-	-	38	1
HTC America Inc.	345,212	11,777	159,546	5,443	-	-	187,894	6,410
HTC EUROPE CO., LTD.	69,277	2,363	90,213	3,077	-	-	9,627	329
Exedea Inc.	25	1	-	-	123	4	-	-
HTC NIPPON Corporation	8,712	297	37,513	1,280	-	-	31,601	1,078
HTC America Holding Inc.	388,596	13,257	196,890	6,717	-	-	(123,000)	(4,196)
HTC America Innovation Inc.	(32,735)	(1,117)	-	-	83,430	2,846	81,193	2,770
One & Company Design, Inc.	(1,932)	(66)	-	-	20,275	692	28,258	964
HTC Corporation (Shanghai WGQ)	2,724	93	859	29	-	-	-	-
HTC Belgium BAVA/SPRL	859	29	6,641	226	-	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	11,271	384	12,158	415	-	-	386	13
								(Continued)

2012

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
	HTC HK, Limited	\$ 2,366	\$ 81	\$ 7,017	\$ 239	\$ -	\$ -	\$ -
HTC India Private Limited	5,424	185	1,496	51	-	-	-	-
HTC (Thailand) Limited	1,195	41	442	15	-	-	-	-
HTC Netherlands B.V.	720	25	2,282	78	-	-	-	-
HTC Italia SRL	4,360	149	429	15	-	-	-	-
HTC BRASIL	1,057	36	-	-	489	17	1,399	48
HTC Communication Co., Ltd.	227,128	7,748	1,723,498	58,795	-	-	2,160,300	73,696
HTC Electronics (Shanghai) Co., Ltd.	126,769	4,325	127,084	4,335	-	-	59,173	2,019
HTC Malaysia Sdn. Bhd.	2,515	86	-	-	-	-	302	10
HTC Innovation Limited	(637)	(22)	-	-	-	-	-	-
HTC Poland sp. z o.o.	368	13	1	-	-	-	1,500	51
HTC Iberia S.L.	1,271	43	2,406	82	-	-	-	-
HTC Germany GmbH.	4,995	170	7,799	266	-	-	-	-
HTC Nordic ApS.	2,233	76	2,359	80	-	-	(35)	(1)
HTC Luxembourg S.a.r.l.	7,682	262	7,319	250	-	-	-	-
HTC FRANCE CORPORATION	57	2	-	-	-	-	-	-
ABAXIA SAS	5,666	193	-	-	-	-	-	-
Saffron Digital Inc.	9,210	314	7,417	253	-	-	59	2
HTC Norway AS	96	3	137	5	-	-	-	-
Dashwire, Inc.	24	1	80	3	-	-	-	-
HTC Communication Sweden AB	159	6	24	1	-	-	-	-
HTC Communication Canada, Ltd.	3,336	114	7,304	249	-	-	4,118	141
Inquisitive Minds, Inc.	24	1	-	-	-	-	-	-
HTC Communication Technologies (SH)	22,522	768	21,761	742	-	-	-	-
FunStream Corporation	-	-	-	-	4	-	-	-
PT. High Tech Computer Indonesia	2,460	84	2,375	81	-	-	-	-
HTC South Eastern Europe Limited liability Company	(207)	(7)	323	11	-	-	-	-
	<u>\$ 1,746,526</u>	<u>\$ 59,581</u>	<u>\$ 3,895,103</u>	<u>\$ 132,877</u>	<u>\$ 104,406</u>	<u>\$ 3,562</u>	<u>\$ 8,416,441</u>	<u>\$ 287,119</u>

(Concluded)

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

	2011	2012	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	\$ 778,911	\$ 741,672	\$ 25,301
Unrealized royalties	4,566,970	5,044,391	172,084
Unrealized contingent losses of purchase orders	529,682	172,711	5,892
Unrealized marketing expenses	5,534,083	3,637,199	124,079
Unrealized warranty expenses	2,289,604	1,872,079	63,864
Capitalize expense	66,724	63,811	2,177
Unrealized bad-debt expenses	63,783	275,162	9,387
Unrealized sales allowance	176,797	87,059	2,970

(Continued)

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Unrealized research materials and molding expenses	\$ 125,927	\$ 142,928	\$ 4,876
Unrealized salaries and welfare	395,521	416,347	14,203
Unrealized valuation loss on financial instruments	-	22,325	762
Unrealized exchange loss	-	68,451	2,335
Others	126,285	1,244,656	42,460
Prior years' loss carryforwards	1,058	192,593	6,570
Tax credit carryforwards	<u>3,141,446</u>	<u>1,666,707</u>	<u>56,858</u>
Total deferred tax assets	17,796,791	15,648,091	533,818
Less: Valuation allowance	<u>(11,104,741)</u>	<u>(6,886,502)</u>	<u>(234,925)</u>
Total deferred tax assets, net	6,692,050	8,761,589	298,893
Deferred tax liabilities			
Unrealized pension cost	(30,399)	(33,542)	(1,144)
Unrealized exchange gain, net	(32,026)	-	-
Unrealized valuation gain on financial instruments	(37,504)	-	-
Unrealized depreciation	(20,569)	(76,055)	(2,594)
Unrealized gain on investment	<u>(30,247)</u>	<u>(235,551)</u>	<u>(8,036)</u>
Deferred tax liabilities offset against deferred tax assets, net	6,541,305	8,416,441	287,119
Less: Current portion	<u>(2,436,806)</u>	<u>(4,080,578)</u>	<u>(139,205)</u>
Deferred tax assets - noncurrent	<u>\$ 4,104,499</u>	<u>\$ 4,335,863</u>	<u>\$ 147,914</u> (Concluded)

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

	<u>2011</u>	<u>2012</u>	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 10,299,311	\$ 4,291,242	\$ 146,391
Less: Increase in deferred income tax assets	(3,123,621)	(1,194,298)	(40,742)
Less: Effect of tax law changes	-	(1,300,426)	(44,363)
Add (less): Underestimation (overestimation) of prior year's income tax	<u>92,940</u>	<u>(49,992)</u>	<u>(1,705)</u>
Income tax	<u>\$ 7,268,630</u>	<u>\$ 1,746,526</u>	<u>\$ 59,581</u>

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

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

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

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

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

As of September 30, 2012, the loss carryforwards of HTC BRASIL that gave rise to deferred income tax assets in the Federative Republic of Brazil were NT\$984 thousand (US\$34 thousand). Taxation could be made on its net income after deduction of losses incurred in the preceding years, but the deduction cannot exceed 30% of the taxable income of the current year.

As of September 30, 2012, the loss carryforwards of HTC America Content Services, Inc., Saffron Digital Inc., Dashwire, Inc. and Inquisitive Minds, Inc. that gave rise to deferred income tax assets in the United States were NT\$191,609 thousand (US\$6,536 thousand), and could be carried forward for 20 years.

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

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

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

HTC's income tax returns through 2009 had been examined by the tax authorities. The income tax returns of Communication Global Certification Inc., HTC Investment Corporation and HTC I Investment Corporation for the years through 2009 have been examined and approved by the tax authority.

23. EARNINGS PER SHARE

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

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

	2011				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$	NT\$	NT\$	
Basic EPS	\$ 57,465,964	\$ 51,032,183	847,739	<u>\$ 67.79</u>	<u>\$ 60.20</u>
Bonus to employees	-	-	9,868		
Diluted EPS	<u>\$ 57,465,964</u>	<u>\$ 51,032,183</u>	<u>857,607</u>	<u>\$ 67.01</u>	<u>\$ 59.51</u>
	2012				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$	NT\$	NT\$	
	Basic EPS	\$ 16,266,706	\$ 15,771,566	832,233	<u>\$ 19.55</u>
Bonus to employees	-	-	3,912		
Diluted EPS	<u>\$ 16,266,706</u>	<u>\$ 15,771,566</u>	<u>836,145</u>	<u>\$ 19.45</u>	<u>\$ 18.86</u>
	2012				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	US\$ (Note 3)	US\$ (Note 3)	US\$ (Note 3)	US\$ (Note 3)	
	Basic EPS	\$ 554,922	\$ 538,031	832,233	<u>\$ 0.67</u>
Bonus to employees	-	-	3,912		
Diluted EPS	<u>\$ 554,922</u>	<u>\$ 538,031</u>	<u>836,145</u>	<u>\$ 0.66</u>	<u>\$ 0.64</u>

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Non-derivative financial instruments

	September 30					
	2011		2012			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Available-for-sale financial assets - current	\$ 734,698	\$ 734,698	\$ 50,520	\$ 1,724	\$ 50,520	\$ 1,724
Available-for-sale financial assets - noncurrent	406	406	183	6	183	6
Held-to-maturity financial assets - noncurrent	205,441	204,728	202,070	6,893	202,040	6,892
Financial assets carried at cost - noncurrent	3,061,328	3,061,328	3,962,435	135,174	3,962,435	135,174

b. Derivative financial instruments

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

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

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

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

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

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

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

	Fair Values Based on Quoted Market Prices			Fair Values Based on Valuation Methods		
	September 30			September 30		
	2011	2012		2011	2012	
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
Assets						
Financial assets at fair value						
through profit or loss - current	\$ -	\$ -	\$ -	\$ 220,609	\$ -	\$ -
Available-for-sale financial						
assets - current	734,698	50,520	1,724	-	-	-
Available-for-sale financial						
assets - noncurrent	406	183	6	-	-	-
Held-to-maturity financial assets						
- noncurrent	204,728	202,040	6,892	-	-	-
Financial assets carried at cost -						
noncurrent	-	-	-	3,061,328	3,962,435	135,174
Liabilities						
Financial liabilities at fair value						
through profit or loss - current	-	-	-	-	137,633	4,695
Hedging derivative liabilities -						
current	-	-	-	-	82,213	2,805

The Company recognized unrealized gains of NT\$2,618 thousand and NT\$19,214 thousand (US\$655 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the nine months ended September 30, 2011 and 2012, respectively.

As of September 30, 2011 and 2012, financial assets exposed to fair value interest rate risk amounted to NT\$205,441 thousand and NT\$202,070 thousand (US\$6,893 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$61,847,498 thousand and NT\$17,617,003 thousand (US\$600,986 thousand), respectively.

Financial Risks

a. Market risk

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

b. Credit risk

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

c. Liquidity risk

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

25. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of HTC's chairperson
VIA Technologies, Inc.	Same chairperson as HTC's
Chander Electronics Corp.	Same chairperson as HTC's
Faith Hope & Love Limited	Its significant stockholder in substance is HTC's chairperson
Openmoko, Inc.	Its significant stockholder in substance is HTC's chairperson
VIA Telecom Company Limited	Its significant stockholder in substance is HTC's chairperson
Beats Electronics, LLC	HTC has lost control of the subsidiary since August, 2012, due to partial disposal of its shares, and accounted for the investment by equity method.
Way-Lien Technology Co., Ltd.	Significant stockholder of HTC
Wozai Information Technology (Beijing), LLC	Its significant stockholder in substance is HTC's chairperson
Employees' Welfare Committee	Employees' Welfare Committee of HTC
HTC Cultural and Educational Foundation	A nonprofit organization with over one third of its total funds donated by the Company

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	Nine Months Ended September 30				% to Total Net Purchases
	2011		2012		
	Amount NT\$	% to Total Net Purchases	Amount NT\$	US\$ (Note 3)	
VIA Telecom Company Limited	\$ -	-	\$ 4,961	\$ 169	-
Chander Electronics Corp.	<u>172,540</u>	-	-	-	-
	<u>\$ 172,540</u>	-	<u>\$ 4,961</u>	<u>\$ 169</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				
	2011		2012		
	Amount	% to Total Revenues	Amount		% to Total Revenues
	NT\$		NT\$	US\$ (Note 3)	
Faith Hope & Love Limited	\$ -	-	\$ 2,236,688	\$ 76,302	1
Employees' Welfare Committee	52,510	-	219,853	7,500	-
Others	2,017	-	3,767	129	-
	<u>\$ 54,527</u>	<u>-</u>	<u>\$ 2,460,308</u>	<u>\$ 83,931</u>	<u>1</u>

The selling prices for products sold to related parties were similar to those for sales to third parties, except those for Employees' Welfare Committees and Faith Hope & Love Limited. The collection terms for products sold to related parties were similar to those for sales to third parties.

Accounts Receivable

Related Party	September 30				
	2011		2012		
	Amount	% to Total Notes and Accounts Receivable	Amount		% to Total Notes and Accounts Receivable
	NT\$		NT\$	US\$ (Note 3)	
Faith Hope & Love Limited	\$ -	-	\$ 219,851	\$ 7,500	1
VIA Technologies Inc.	34	-	-	-	-
	<u>\$ 34</u>	<u>-</u>	<u>\$ 219,851</u>	<u>\$ 7,500</u>	<u>1</u>

Accounts Payable

Related Party	September 30				
	2011		2012		
	Amount	% to Total Notes and Accounts Payable	Amount		% to Total Notes and Accounts Payable
	NT\$		NT\$	US\$ (Note 3)	
VIA Telecom Company Limited	\$ -	-	\$ 4,924	\$ 168	-
Chander Electronics Corp.	25,262	-	-	-	-
	<u>\$ 25,262</u>	<u>-</u>	<u>\$ 4,924</u>	<u>\$ 168</u>	<u>-</u>

Other Receivable

Related Party	September 30				% to Total Other Receivable
	2011		2012		
	Amount	% to Total Other Receivable	Amount	US\$	
		NT\$	(Note 3)		
Beats Electronics, LLC	\$ -	-	\$ 6,619,951	\$ 225,833	55
Other	143	-	-	-	-
	<u>\$ 143</u>	<u>-</u>	<u>\$ 6,619,951</u>	<u>\$ 225,833</u>	<u>55</u>

For details of other receivable from Beats Electronics, LLC, please refer to Loan section of Note 25.

Prepaid Expenses

Related Party	September 30				% of Total Prepaid Expenses
	2011		2012		
	Amount	% of Total Prepaid Expenses	Amount	US\$	
		NT\$	(Note 3)		
VIA Technologies Inc.	\$ 87	-	\$ -	-	-

Accrued Expenses

Related Party	September 30				% to Total Other Payables
	2011		2012		
	Amount	% to Total Other Payables	Amount	US\$	
		NT\$	(Note 3)		
Way-Lien Technology Inc.	\$ 200	-	\$ 1,000	\$ 34	-
Xander International Corp.	-	-	74	3	-
HTC Cultural and Educational Foundation	<u>217,800</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 218,000</u>	<u>1</u>	<u>\$ 1,074</u>	<u>\$ 37</u>	<u>-</u>

Accrued expenses were consulting expenses. Note 18 has more information about HTC Cultural and Educational Foundation.

Other Payables to Related Parties

Related Party	September 30				% to Total Other Payables
	2011		2012		
	Amount	% to Total Other Payables	Amount		
	NT\$		NT\$	US\$ (Note 3)	
Wozai Information Technology (Beijing), LLC	\$ -	-	\$ 6,771	\$ 231	-

Service Fees

Related Party	Nine Months Ended September 30				% to Total Warranty Expenses
	2011		2012		
	Amount	% to Warranty Expenses	Amount		
	NT\$		NT\$	US\$ (Note 3)	
Wozai Information Technology (Beijing), LLC	\$ -	-	\$ 6,846	\$ 234	-
Way-Lien Technology Inc.	1,800	-	1,800	61	-
	\$ 1,800	-	\$ 8,646	\$ 295	-

Service fees resulted from business consulting service.

Leasing - Lessee

Operating expenses - rental expenses

Related Party	Nine Months Ended September 30				% to Total Rental Expenses
	2011		2012		
	Amount	% to Total Rental Expenses	Amount		
	NT\$		NT\$	US\$ (Note 3)	
VIA Technologies Inc.	\$ 3,906	2	\$ 3,906	\$ 133	1

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

Donation Expenses

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

Note 18 has more information about HTC Cultural and Educational Foundation.

Trademark and Technology License Agreement

Beats Electronics, LLC

In order to enhance the product diversity, the Company entered into a trademark and technology license agreement with Beats Electronics, LLC. The agreement took effect in August 2011 and will end in December 2016. The royalty expense for nine months ended September 30, 2012 was NT\$193,492 thousand (US\$6,601 thousand). As of September 30, 2012, there was NT\$41,568 thousand (US\$1,418 thousand) unpaid.

Openmoko, Inc.

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

Property Transaction

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

Patent Litigation

Note 29 has more information.

Loan

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

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

26. PLEDGED ASSETS

In order to protect the rights and interests of its employees, the Company appropriated, in respect of the accrued employee bonus recognized, NT\$3,645,820 thousand (US\$124,373 thousand) in September 2012 to establish a trust account. The trust account, which is under restricted assets - current, amounted to NT\$3,645,820 thousand (US\$124,373 thousand) as of September 30, 2012.

As of September 30, 2011 and 2012 the Company had provided time deposits of NT\$71,095 thousand and NT\$4,507 thousand (US\$154 thousand), respectively, as collateral for rental deposits and to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

27. COMMITMENTS AND CONTINGENCIES

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

28. SIGNIFICANT CONTRACTS

Patent Agreement

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

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

(Continued)

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

(Concluded)

29. OTHER EVENT

Lawsuit

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

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

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

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

As of October 26, 2012, the date of the accompanying independent accountants' review report, there had been no critical hearing nor had a court decision been made, except for the above.

- b. In March 2010, Apple Inc. ("Apple") filed a lawsuit against the Company concurrently with the U.S. International Trade Commission ("ITC") and U.S. District Court in Delaware ("Delaware court"), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing and selling devices in the United States and damage compensation, respectively. The Company subsequently filed ITC investigation and filed counterclaim with Delaware court against Apple for patent infringements. The Company requested ITC and Delaware court to prevent Apple from importing and selling devices in the United States and damage compensation, respectively.

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

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

As of October 26, 2012, the date of the accompanying independent accountants' review report, there had been no critical hearing nor had a court decision been made, except for the above.

- c. In January 2012, Eastman Kodak ("Kodak") filed a lawsuit against the Company concurrently with the ITC and U.S. District Court of Western District of New York ("New York court"), alleging that the Company infringed its patents. Kodak requested ITC and New York court to prevent the Company from exporting to and selling in United States devices made using Kodak's patents and damage compensation, respectively. The Company evaluated that there is no direct relation between the associated technology used in the Company's devices and patents claimed by Kodak. The Company believes the lawsuits have limited impact on its financial results or sales activities.

As of October 26, 2012, the date of the accompanying independent accountants' review report, there had been no further hearing nor had a court decision been made.

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

As of October 26, 2012, the date of the accompanying independent accountants’ review report, there had been no further hearing nor had a court decision been made.

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

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

	September 30			
	2011		2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 3,505,154	30.49	\$ 2,799,164	29.31
EUR	594,663	41.24	267,441	37.91
GBP	82,601	47.48	44,661	47.61
JPY	197,235	0.3975	3,537,594	0.3779
RMB	1,834,496	4.77	2,635,908	4.65
Nonmonetary items				
USD	77,509	30.49	113,045	29.31
Investments accounted for by the equity method				
USD	2,500	30.49	184,824	29.31
<u>Financial liabilities</u>				
Monetary items				
USD	3,616,086	30.49	2,890,746	29.31
EUR	595,404	41.24	275,176	37.91
GBP	68,511	47.48	46,971	47.61
JPY	1,169,708	0.3975	10,586,571	0.3779
RMB	966,767	4.77	2,856,400	4.65

30. SEGMENT DISCLOSURES

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Under SFAS No. 41, the Company is organized and managed as a single reportable business segment. The Company's operations are mainly related to the research, design, manufacture and sales of smart handheld devices and the operating revenue made up more than 90 percent of the total revenue.

Selected financial information was as follows:

Geographical Areas

The Company's noncurrent assets (other than financial instruments, deferred income tax assets and post-employment benefit assets) located in Taiwan and in an individual foreign country as of September 30, 2011 and 2012, and revenues from Taiwan and from an individual foreign country account for 10 percent or more for the nine months ended September 30, 2011 and 2012 were as follows:

	Revenues			Non-current Assets		
	Nine Months Ended September 30			September 30		
	2011	2012	US\$	2011	2012	US\$
	NT\$	NT\$	(Note 3)	NT\$	NT\$	(Note 3)
Taiwan	\$ 14,235,201	\$ 17,705,051	\$ 603,990	\$ 22,265,945	\$ 30,238,240	\$ 1,031,546
Country Y	180,752,015	51,932,187	1,771,613	966,131	1,300,836	44,377
Country Z	14,510,413	39,466,512	1,346,360	4,869,502	5,239,652	178,745
Others	<u>154,877,995</u>	<u>119,903,525</u>	<u>4,090,386</u>	<u>2,538,885</u>	<u>11,645,104</u>	<u>397,261</u>
	<u>\$ 364,375,624</u>	<u>\$ 229,007,275</u>	<u>\$ 7,812,349</u>	<u>\$ 30,640,463</u>	<u>\$ 48,423,832</u>	<u>\$ 1,651,929</u>

Major Customers

Revenues from transactions with a single external customer amounted to 10 percent or more for the nine months ended September 30, 2011 and 2012 were as follows:

Customer	2011	2012	
	NT\$	NT\$	US\$
			(Note 3)
A	\$ 71,606,677	\$ 18,190,312	\$ 620,544
B	41,333,651	14,087,794	480,591
C	<u>54,940,056</u>	<u>5,100,697</u>	<u>174,005</u>
	<u>\$ 167,880,384</u>	<u>\$ 37,378,803</u>	<u>\$ 1,275,140</u>

31. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission ("FSC") on February 2, 2010, the Company pre-disclosed the relevant information on the adoption of the International Financial Reporting Standards ("IFRSs") as follows:

- On May 14, 2009, the FSC announced the "Framework for the Adoption of International Financial Reporting Standards by the Companies in the ROC." In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange ("TWSE") or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, and the Interpretations

as well as related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Company has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is Mr. James Chen, the vice president. The main contents of the plan, schedule and status of execution as of September 30, 2012 were as follows:

<u>Contents of Plan</u>	<u>Responsible Department</u>	<u>Status of Execution</u>
Assessment phase: From January 1, 2010 to December 31, 2011		
• Make a plan to adopt the IFRSs and set up a project team	Finance and accounting	Completed
• Conduct phase I internal training for employees	Finance and accounting and Talent management	Completed
• Compare and analyze the differences between the existing accounting policies and the accounting policies to be adopted under IFRSs	Finance and accounting	Completed
• Assess the adjustments of the existing accounting policies	Finance and accounting	Completed
• Assess the applicability of the IFRS 1 - "First-time Adoption of International Financial Reporting Standards"	Finance and accounting	Completed
• Assess the adjustments of the related information technology system and internal control	Finance and accounting, Intrenal audit and Information technology	Completed
Preparation phase: From January 1, 2011 to December 31, 2012		
• Determine how to adjust the existing accounting policies in accordance with IFRSs	Finance and accounting	Completed
• Determine how to apply to the IFRS 1 - "First-time Adoption of International Financial Reporting Standards"	Finance and accounting	Completed
• Adjust the related information technology system and internal control	Finance and accounting, Intrenal audit and Information technology	In progress
• Conduct phase II internal training for employees	Finance and accounting and Talent management	Completed
Implementation phase: From January 1, 2012 to December 31, 2013		
• Test run the adjusted related information technology system	Finance and accounting and Information technology	In progress
• Gather information to prepare the opening balance sheets and comparative financial statements in conformity with IFRSs	Finance and accounting	In progress
• Prepare financial statements in conformity with IFRSs	Finance and accounting	In progress

b. As of September 30, 2012, significant differences identified by the Company that may arise between current accounting policies under R.O.C. GAAP and the ones under IFRSs that will be used in the preparation of financial statements in the future are set forth below:

1) Reconciliation of its balance sheet as of January 1, 2012:

ROC GAAP Item	The Effect of the Transition from ROC GAAP to IFRSs				IFRSs		Item	Note
	Amount NT\$	Measurement or Recognition Inconsistency NT\$	Presentation Difference NT\$	Amount				
				NT\$	US\$ (Note 3)			
<u>Assets</u>								
<u>Current assets</u>								
Cash and cash equivalents	\$ 87,501,508	\$ -	\$ (25,474,750)	\$ 62,026,758	\$ 2,115,979	Cash and cash equivalents	(1)	
Financial assets at fair value through profit or loss - current	256,868	-	-	256,868	8,763	Financial assets at fair value through profit or loss - current		
Available-for-sale financial assets - current	736,031	-	-	736,031	25,109	Available-for-sale financial assets - current		
Notes receivable, net	755,450	-	-	755,450	25,771	Notes receivable, net		
Accounts receivable, net	63,964,341	-	-	63,964,341	2,182,078	Accounts receivable, net		
Other financial assets - current	1,405,911	-	25,474,750	26,880,661	917,006	Other receivables	(1)	
Inventories	28,430,590	-	-	28,430,590	969,880	Inventories		
Prepayments	7,075,231	-	-	7,075,231	241,364	Prepayments		
Deferred income tax assets - current	2,246,196	-	(2,246,196)	-	-	-	(2)	
Other current assets	1,055,480	-	-	1,055,480	36,008	Other current assets		
Total current assets	193,427,606	-	(2,246,196)	191,181,410	6,521,958			
<u>Long-term investments</u>								
Available-for-sale financial assets - noncurrent	279	-	-	279	9	Available-for-sale financial assets - noncurrent		
Held-to-maturity financial assets - noncurrent	204,597	-	-	204,597	6,980	Held-to-maturity financial assets - noncurrent		
Financial assets carried at cost - noncurrent	3,408,654	-	-	3,408,654	116,283	Financial assets carried at cost - noncurrent		
Investments accounted for by the equity method	71,732	-	-	71,732	2,447	Investments accounted for by the equity method		
Total long-term investments	3,685,262	-	-	3,685,262	125,719			
Properties	21,512,478	-	-	21,512,478	733,876	Property, plant and equipment		
<u>Intangible assets</u>								
Patents	11,152,098	-	-	11,152,098	380,442	Patents		
Goodwill	10,812,564	-	-	10,812,564	368,859	Goodwill		
Deferred pension cost	342	(342)	-	-	-	-	(4)	
Other intangible assets	595,784	-	-	595,784	20,325	Other intangible assets		
Total intangible assets	22,560,788	(342)	-	22,560,446	769,626			
<u>Other assets</u>								
Refundable deposits	185,306	-	-	185,306	6,321	Refundable deposits		
Deferred charges	763,516	-	-	763,516	26,047	Deferred charges		
Deferred income tax assets - noncurrent	3,675,521	58,000	2,246,196	5,979,717	203,992	Deferred income tax assets	(2), (3)	
Restricted assets - noncurrent	68,700	-	-	68,700	2,344	Restricted assets - noncurrent		
Other	8,712,949	(83,052)	-	8,629,897	294,400	Other noncurrent assets	(4)	
Total other assets	13,405,992	(25,052)	2,246,196	15,627,136	533,104			
Total	\$ 254,592,126	\$ (25,394)	\$ -	\$ 254,566,732	\$ 8,684,283			
<u>Liabilities and stockholders' equity</u>								
<u>Current liabilities</u>								
Notes and accounts payable	\$ 77,268,293	\$ -	\$ -	\$ 77,268,293	\$ 2,635,929	Notes and accounts payable		
Income tax payable	10,570,682	-	-	10,570,682	360,608	Current tax liabilities		
Accrued expenses	46,171,290	99,321	-	46,270,611	1,578,474	Accrued expenses	(6)	
Payable for purchase of equipment	812,240	-	-	812,240	27,709	Payable for purchase of equipment		
-	-	-	15,133,275	15,133,275	516,256	Provisions - current	(5)	
Other current liabilities	17,307,355	-	(15,133,275)	2,174,080	74,166	Other current liabilities	(5)	
Total current liabilities	152,129,860	99,321	-	152,229,181	5,193,142			
<u>Other liabilities</u>								
Guarantee deposits received	42,946	-	-	42,946	1,466	Guarantee deposits received		
Total liabilities	152,172,806	99,321	-	152,272,127	5,194,608			
<u>Stockholders' equity</u>								
Common stock	8,520,521	-	-	8,520,521	290,669	Common stock		
Capital surplus	-	-	-	-	-	Capital surplus		
Additional paid-in capital - issuance of shares in excess of par	14,809,608	-	-	14,809,608	505,215	Additional paid-in capital - issuance of shares in excess of par		
Treasury stock transactions	1,730,458	-	-	1,730,458	59,033	Treasury stock transactions		
Long-term equity investments	18,037	(18,037)	-	-	-	-	(7)	
Merger	24,423	-	-	24,423	833	Merger		
Expired stock options	37,068	-	-	37,068	1,264	Expired stock options		
<u>Retained earnings</u>								
Legal reserve	10,273,674	-	-	10,273,674	350,476	Legal reserve		
Special reserve	580,856	-	-	580,856	19,815	Special reserve		
Accumulated earnings	75,762,315	(74,837)	-	75,687,478	2,582,001	Accumulated earnings	(3), (4), (6), (7), (8)	

(Continued)

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs			IFRSs		Item	Note
		Measurement or Recognition Inconsistency	Presentation Difference	Amount				
Item	Amount	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)		
Other equity								
Cumulative translation adjustments	\$ 32,134	\$ (32,134)	\$ -	\$ -	\$ -	\$ -	Cumulative translation adjustments	(8)
Net loss not recognized as pension cost	(293)	293	-	-	-	-	-	(4)
Unrealized valuation gain on financial instruments	2,939	-	-	-	2,939	100	Unrealized valuation gain on financial instruments	
Treasury stock	(10,365,144)	-	-	-	(10,365,144)	(353,596)	Treasury stock	
Equity attributable to stockholders of the parent	101,426,596	(124,715)	-	-	101,301,881	3,455,810		
Minority interest	992,724	-	-	-	992,724	33,866	Non-controlling interests	
Total stockholders' equity	102,419,320	(124,715)	-	-	102,294,605	3,489,676		
Total	\$ 254,592,126	\$ (25,394)	\$ -	\$ -	\$ 254,566,732	\$ 8,684,284		

(Concluded)

2) Reconciliation of the balance sheet as of September 30, 2012:

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs			IFRSs		Item	Note
		Measurement or Recognition Inconsistency	Presentation Difference	Amount				
Item	Amount	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)		
Assets								
Current assets								
Cash and cash equivalents	\$ 50,516,048	\$ -	\$ (5,228,186)	\$ -	\$ 45,287,862	\$ 1,544,949	Cash and cash equivalents	(1)
Available-for-sale financial assets - current	50,520	-	-	-	50,520	1,724	Available-for-sale financial assets - current	
Accounts receivable, net	40,798,544	-	-	-	40,798,544	1,391,800	Accounts receivable, net	
Restricted assets - current	3,645,820	-	-	-	3,645,820	124,373	Restricted assets - current	
Other receivables - related parties	6,619,951	-	-	-	6,619,951	225,833	Other receivables - related parties	
Other financial assets - current	1,090,580	-	5,228,186	-	6,318,766	215,559	Other receivables	(1)
Inventories	21,396,402	-	-	-	21,396,402	729,916	Inventories	
Prepayments	5,741,555	-	-	-	5,741,555	195,867	Prepayments	
Deferred income tax assets - current	4,080,578	-	(4,080,578)	-	-	-	-	(2)
Other current assets	674,769	-	-	-	674,769	23,019	Other current assets	
Total current assets	134,614,767	-	(4,080,578)	-	130,534,189	4,453,040		
Long-term investments								
Available-for-sale financial assets - noncurrent	183	-	-	-	183	6	Available-for-sale financial assets - noncurrent	
Held-to-maturity financial assets - noncurrent	202,070	-	-	-	202,070	6,893	Held-to-maturity financial assets - noncurrent	
Financial assets carried at cost - noncurrent	3,962,435	-	-	-	3,962,435	135,174	Financial assets carried at cost - noncurrent	
Investments accounted for by the equity method	5,663,059	-	-	-	5,663,059	193,190	Investments accounted for by the equity method	(9)
Total long-term investments	9,827,747	-	-	-	9,827,747	335,263		
Properties	25,541,331	-	-	-	25,541,331	871,316	Property, plant and equipment	
Intangible assets								
Patents	9,661,596	-	-	-	9,661,596	329,596	Patents	
Goodwill	1,594,872	-	-	-	1,594,872	54,407	Goodwill	
Deferred pension cost	342	(342)	-	-	-	-	-	(4)
Other intangible assets	862,122	-	-	-	862,122	29,410	Other intangible assets	
Total intangible assets	12,118,932	(342)	-	-	12,118,590	413,413		
Other assets								
Refundable deposits	185,409	-	-	-	185,409	6,325	Refundable deposits	
Deferred charges	960,736	-	-	-	960,736	32,775	Deferred charges	
Long - term receivable	4,397,025	-	-	-	4,397,025	150,000	Long - term receivable	
Deferred income tax assets - noncurrent	4,335,863	86,000	4,080,578	-	8,502,441	290,052	Deferred income tax assets	(2), (3)
Restricted assets - noncurrent	4,507	-	-	-	4,507	154	Restricted assets	
Other	10,003,493	(81,686)	-	-	9,921,807	338,473	Other assets - other	(4)
Total other assets	19,887,033	4,314	4,080,578	-	23,971,925	817,779		
Total	\$ 201,989,810	\$ 3,972	\$ -	\$ -	\$ 201,993,782	\$ 6,890,811		
Liabilities and stockholders' equity								
Current liabilities								
Financial liabilities at fair value through profit or loss - current	\$ 137,633	\$ -	\$ -	\$ -	\$ 137,633	\$ 4,695	Financial liabilities at fair value through profit or loss - current	
Hedging derivative assets - current	82,213	-	-	-	82,213	2,805	Hedging derivative assets - current	
Notes and accounts payable	64,776,187	-	-	-	64,776,187	2,209,773	Notes and accounts payable	

(Continued)

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs			IFRSs		Item	Note
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference	Amount				
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)			
Income tax payable	\$ 3,895,103	\$ -	\$ -	\$ 3,895,103	\$ 132,877	Current tax liabilities		
Accrued expenses	37,274,487	110,947	-	37,385,434	1,275,366	Accrued expenses	(6)	
Payable for purchase of equipment	1,795,161	-	-	1,795,161	61,240	Payable for purchase of equipment		
-	-	-	11,847,666	11,847,666	404,171	Provisions - current	(5)	
Other current liabilities	14,767,264	-	(11,847,666)	2,919,598	99,599	Other current liabilities	(5)	
Total current liabilities	122,728,048	110,947	-	122,838,995	4,190,526			
Other liabilities								
Guarantee deposits received	122,830	-	-	122,830	4,190	Guarantee deposits received		
Total liabilities	122,850,878	110,947	-	122,961,825	4,194,716			
Stockholders' equity								
Common stock	8,520,521	-	-	8,520,521	290,669	Common stock		
Capital surplus						Capital surplus		
Additional paid-in capital - issuance of shares in excess of par	14,809,608	-	-	14,809,608	505,215	Additional paid-in capital - issuance of shares in excess of par		
Treasury stock transactions	1,730,458	-	-	1,730,458	59,033	Treasury stock transactions		
Long-term equity investments	18,037	(18,037)	-	-	-	-	(7)	
Merger	24,423	-	-	24,423	833	Merger		
Expired stock options	37,068	-	-	37,068	1,266	Expired stock options		
Retained earnings								
Legal reserve	16,471,254	-	-	16,471,254	561,900	Legal reserve		
Accumulated earnings	52,668,072	(57,097)	-	52,610,975	1,794,769	Accumulated earnings	(3), (4), (6), (7), (8), (9)	
Other equity								
Cumulative translation adjustments	(1,008,358)	(32,134)	-	(1,040,492)	(35,496)	Cumulative translation adjustments	(8)	
Net loss not recognized as pension cost	(293)	293	-	-	-	-	(4)	
Unrealized valuation gain on financial instruments	(66,368)	-	-	(66,368)	(2,264)	Unrealized valuation gain on financial instruments		
Treasury stock	(14,065,490)	-	-	(14,065,490)	(479,830)	Treasury stock		
Total stockholders' equity	79,138,932	(106,975)	-	79,031,957	2,696,095			
Total	\$ 201,989,810	\$ 3,972	\$ -	\$ 201,993,782	\$ 6,890,811			

(Concluded)

3) Reconciliation of the consolidated income statement for the nine months ended September 30, 2012:

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs			IFRSs		Item	Note
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference	Amount				
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)			
Revenues	\$ 229,007,295	\$ -	\$ -	\$ 229,007,295	\$ 7,812,349	Revenues		
Cost of revenues	169,899,456	(1,505)	-	169,897,951	5,795,894	Cost of revenues	(4), (6)	
Gross profit	59,107,839	1,505	-	59,109,344	2,016,455	Gross profit		
Operating expenses						Operating expenses		
Research and development	12,099,522	9,177	-	12,108,699	413,076	Research and development	(4), (6)	
General and administrative	4,860,906	1,595	-	4,862,501	165,879	General and administrative	(4), (6)	
Selling and marketing	23,934,412	993	-	23,935,405	816,532	Selling and marketing	(4), (6)	
Total operating expenses	40,894,840	11,765	-	40,906,605	1,395,487	Total operating expenses		
Operating income	18,212,999	(10,260)	-	18,202,739	620,968	Operating income		
Nonoperating income and gains						Nonoperating income and gains		
Interest income	449,127	-	-	449,127	15,322	Interest income		
Investment gain	125,656	-	-	125,656	4,287	Gain on sale of investments		
Exchange gain	743,824	-	-	743,824	25,375	Exchange gain		
Other	397,451	-	-	397,451	13,558	Other		
Total nonoperating income and gains	1,716,058	-	-	1,716,058	58,542	Total nonoperating income and gains		
Nonoperating expenses and losses						Nonoperating expenses and losses		
Interest expense	1,555	-	-	1,555	53	Interest expense		
Loss on disposal of Investments	165,184	-	-	165,184	5,635	Loss on disposal of Investments	(9)	
Loss on disposal of properties	1,634	-	-	1,634	56	Loss on disposal of properties		
Impairment loss	1,211,649	-	-	1,211,649	41,334	Investment loss		
Valuation loss on financial liabilities	131,325	-	-	131,325	4,480	Valuation loss on financial liabilities		
Other	91,400	-	-	91,400	3,118	Other		
Total nonoperating expenses and losses	1,602,747	-	-	1,602,747	54,676	Total nonoperating expenses and losses		
Income before income tax	18,326,310	(10,260)	-	18,316,050	624,834	Income before income tax		
Income tax	(1,746,526)	28,000	-	(1,718,526)	(58,626)	Income tax	(3)	
Net income	\$ 16,579,784	\$ 17,740	\$ -	\$ 16,597,524	\$ 566,208	Net income		

(Continued)

ROC GAAP		The Effect of the Transition from ROC GAAP to IFRSs			IFRSs		Item	Note
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference	Amount				
	NT\$			NT\$	NT\$	US\$ (Note 3)		
				\$ (1,040,492)	\$ (35,495)	Exchange differences on translating foreign operations		
				19,214	655	Unrealized valuation gain on available-for-sale financial assets		
				(88,521)	(3,020)	Unrealized valuation loss on financial instruments for cash flow hedging		
				-	-	Income tax relating to components of OCI		
				<u>(1,109,799)</u>	<u>(37,860)</u>	OCI for the year (net of tax)		
				<u>\$ 15,487,725</u>	<u>\$ 528,348</u>	Other comprehensive income		

(Concluded)

Note:

(1) Under ROC GAAP, the term “cash” used in the financial statements includes cash on hand, demand deposits, check deposits, time deposits that are cancellable but without any loss of principal and negotiable certificates of deposit that are readily salable without any loss of principal. However, under IFRSs, cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition. Some certificates of deposit the Company held had maturity of more than 3 months from the date of investment. Therefore, as of January 1, and September 30, 2012, the reclassification adjustment resulted in decrease of “cash and cash equivalents” and corresponding increase of “other receivable” by NT\$25,474,750 thousand (US\$869,045 thousand) and NT\$5,228,186 thousand (US\$178,354 thousand), respectively.

(2) Under ROC GAAP, a deferred income tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred income tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent based on the expected length of time before it is realized or settled. By contrast, under IFRSs, a deferred income tax asset or liability is always classified as noncurrent. Therefore, as of January 1, and September 30, 2012, the reclassification adjustment resulted in decrease of “deferred income tax asset - current” and corresponding increase of “deferred income tax asset - noncurrent” by NT\$2,246,196 thousand (US\$76,627 thousand) and NT\$4,080,578 thousand (US\$139,205 thousand), respectively.

Under ROC GAAP, deferred tax assets are recognized in full but are reduced by a valuation allowance account if there is evidence showing that a portion of or all the deferred tax assets will not be realized. However, under IFRSs, an entity recognizes deferred tax assets only if realization is “probable” and a valuation allowance account is not used. Therefore, as of January 1, and September 30, 2012, the reclassification adjustment resulted in a decrease of “deferred income tax assets” and its valuation allowance account by NT\$11,132,656 thousand (US\$379,779 thousand) and NT\$6,886,502 thousand (US\$234,925 thousand), respectively.

(3) Under ROC GAAP, deferred income tax assets or liabilities from intergroup sales are recognized for the change in tax basis using the seller’s tax rates. However, under IFRSs, the buyer’s tax rates are used instead. Therefore, the IFRS adjustment as of January 1, 2012, resulted in an increase of “deferred income tax assets” by NT\$58,000 thousand (US\$1,979 thousand) and a corresponding increase of “accumulated earnings”. In addition, the evaluation adjustment made on September 30, 2012 resulted in an increase of “deferred income tax assets” and a corresponding increase of “accumulated earnings” by NT\$86,000 thousand (US\$2,934 thousand) and a decrease of “income tax” by NT\$28,000 thousand (US\$955 thousand).

- (4) In accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards, The Company elected to recognize all cumulative actuarial gains and losses relating to employee benefits at the date of transition to IFRSs. Therefore, as of January 1, 2012, the IFRS adjustment resulted in a decrease in “accumulated earnings” of NT\$83,687 thousand (US\$2,855 thousand) due to decreases of “deferred pension cost” by NT\$342 thousand (US\$12 thousand), “defined benefit assets” by NT\$83,052 thousand (US\$2,833 thousand) and “net loss not recognized as pension cost” by NT\$293 thousand (US\$10 thousand).

As of September 30, 2012, the IFRS adjustment resulted in a decrease in “accumulated earnings” of NT\$82,321 thousand (US\$2,808 thousand) due to decreases of “deferred pension cost” by NT\$342 thousand (US\$12 thousand), “defined benefit assets” by NT\$81,686 thousand (US\$2,786 thousand) and “net loss not recognized as pension cost” by NT\$293 thousand (US\$10 thousand). In addition, this adjustment also resulted in decreases of “cost of revenues” by NT\$374 thousand (US\$13 thousand), “selling and marketing expenses” by NT\$101 thousand (US\$3 thousand), “general and administrative expenses” by NT\$161 thousand (US\$6 thousand) and “research and developing expenses” by NT\$730 thousand (US\$25 thousand).

- (5) Under ROC GAAP, if an obligation is probable (i.e., likely to occur) and the amount could be reasonably estimated, it is a contingent liability and should be accrued for, but under which account is not clearly defined. However, under IFRSs, it defines “provisions” as obligations that are probable (i.e., more likely than not) and the amount could be reasonably estimated. Therefore, as of January 1, and September 30, 2012, the reclassification adjustment resulted in decrease of “other current liabilities” and corresponding increase of “provisions - current” by NT\$15,133,275 thousand (US\$516,256 thousand) and NT\$11,847,666 thousand (US\$404,171 thousand), respectively.
- (6) Accumulated compensated absences is not addressed in existing ROC GAAP; thus, the Company has not recognized the expected cost of employee benefits in the form of accumulated compensated absences at the end of reporting periods. However, under IFRSs, when the employees render services that increase their entitlement to future compensated absences, an entity should recognize the expected cost of employee benefits at the end of reporting periods. Therefore, as of January 1, 2012, the IFRS adjustment resulted in an increase of “accrued expenses” of NT\$99,321 thousand (US\$3,388 thousand) and a corresponding decrease of “accumulated earnings”. In addition, the evaluation adjustment made on September 30, 2012 resulted in decrease in “accumulated earnings” of NT\$110,947 thousand (US\$3,785 thousand) due to increase of “accrued expenses”, this adjustment also resulted in decreases of “cost of revenues” by NT\$1,131 thousand (US\$38 thousand), increases of “selling and marketing expenses” by NT\$1,094 thousand (US\$37 thousand), “general and administrative expenses” by NT\$1,756 thousand (US\$60 thousand) and “research and developing expenses” by NT\$9,907 thousand (US\$338 thousand).
- (7) Under ROC GAAP, if an investee issues new shares and an investor does not purchase new shares proportionately, which results in a change in the Company’s holding percentage and its interest in the investee’s net assets, such difference shall be adjusted to capital surplus and long-term equity investment accounts. By contrast, under IFRSs, a reduction in investor’s ownership interest would be treated as a deemed disposal, with the related gain or loss recognized in profit or loss, if loss of significant influence or control. An entity may elect whether to adjust the difference retrospectively, and the Company elected to use exemption to the retrospective application. Therefore, the IFRS adjustment resulted in a decrease of capital surplus - long-term equity investments of NT\$18,037 thousand (US\$615 thousand) and a corresponding increase of accumulated earnings by related rules.

- (8) The Company elected to reset the cumulative translation differences to zero at the date of transition to IFRSs, and the reversal has been used to adjust accumulated earnings as of January 1, 2012. The gain or loss on any subsequent disposals of any foreign operations shall exclude cumulative translation differences that arose before the date of transition to IFRSs. Therefore, the IFRS adjustment resulted in a decrease of a cumulative translation differences of NT\$32,134 thousand (US\$1,096 thousand) and a corresponding increase of accumulated earnings.
- (9) Under ROC GAAP, if an investor company disposes its long-term equity investments and lost control over its investee company, the difference between investment cost and underlying equity in net assets should be reduced proportionally. If there is a balance on other equity adjustment items from the long-term equity investment, then an investor company shall calculate its share when the investment is sold, so that the pro-rata gains or losses from the disposal of the long-term investment can be accounted for. However, under IFRSs, the fair value of any investment retained in the former subsidiary at the date when control is lost should be regarded as the fair value on initial recognition of a financial asset. The investor company should account for all amounts recognized in Other Comprehensive Income in relation to that subsidiary on the same basis as would be required if the investor company had directly disposed of the related assets or liabilities. As of October 26, 2012, the date of the accompanying independent accountants' review report, the Company still evaluated the fair value of remained investment from the disposal of its subsidiary and could not recognize the effect of the differences.
- c. In accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards, an entity should comply with each IFRS effective at the first-time adoption to prepare and present financial statements and adjust retrospectively, except that the IFRS grants optional exemptions and mandatory exemptions. The main optional exemptions the Company adopted are summarized as follows:
- 1) Business combinations:

The Company elected not to apply IFRS 3 - Business Combination retrospectively to past business combinations that occurred before the date of transition to IFRSs. Therefore, in the opening balance sheet, the amount of goodwill generated from past business combinations remains the same compared with the one under R.O.C. GAAP as of December 31, 2011.
 - 2) Goodwill arising from business combinations and fair value adjustments:

In accordance with IAS 21 - The Effects of Changes in Foreign Exchange Rates, any goodwill and any fair value adjustment to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation shall be treated as assets and liabilities of the foreign operation. Therefore, goodwill and those fair value adjustments shall be expressed in the foreign operation's functional currency and shall be translated at the closing rate at the end of the reporting period. The Company elected not to apply IAS 21 retrospectively to goodwill and those fair value adjustments arising from business combinations that occurred before the date of transition to IFRSs. Therefore, goodwill and fair value adjustments that occurred before the date of transition to IFRSs are expressed in New Taiwan dollars using the historical exchange rates.
 - 3) Share-based payment transactions:

The Company elected to use the exemption from retrospective application of IFRS 2 - Share-based Payment to all equity instruments that were granted and vested before the date of transition to IFRSs.
 - 4) Employee benefits:

The Company elected to recognize all cumulative actuarial gains and losses relating to employee benefits in accumulated earnings at the date of transition to IFRSs.

5) Cumulative translation differences:

The Company elected to reset the cumulative translation differences to zero at the date of transition to IFRSs, and the reversal has been used to offset accumulated earnings as of December 31, 2011. Thus, the gain or loss on any subsequent disposal of foreign operations shall exclude translation differences that arose before the date of transition to IFRSs.

The foregoing optional exemptions that the Company plans to elect are subject to changes arising from the management's consideration and assessment; therefore, the actual results may vary.

d. Special reserve at the date of transition to IFRSs

In accordance with the order VI-1010012865 issued by FSC on April 6, 2012, at the first-time adoption of IFRSs, an entity shall appropriate a corresponding amount to special reserve same as the IFRS adjustment, in which case an entity elects to use exemption application specified in IFRS 1 and resets unrealized revaluation increment and cumulative translation differences under stockholders' equity to zero, and its retained earnings is being increased accordingly. However, if the retained earnings' arising from IFRS adjustment at the first-time adoption is insufficient, special reserve shall be appropriated by the amount that retained earnings increase from the IFRS adjustment. While subsequent usage, disposal or reclassification of the related assets, special reserve shall be reversed in proportion.

The Company elected to reset the cumulative translation differences of NT\$32,134 thousand (US\$1,096 thousand) to zero and credited a corresponding amount to retained earnings. However, the Company's total IFRS adjustments, at the first-time adoption of IFRSs, resulted in a decrease of retain earnings by NT\$74,837 thousand (US\$2,553 thousand). Therefore, no special reserve was appropriated.

e. The Company has prepared the above assessments in compliance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the International Accounting Standards Board (IASB) continues to issue or amend standards, and as the FSC may issue new rules governing the adoption of IFRSs by companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market. Actual results may differ from these assessments. New and revised standards, amendments or interpretations that have been issued by IASB and approved but are not yet effected by the FSC are as follows:

Standards or Interpretations	Content	Effective Date by IASB
IFRSs (Amendments)	Improvements to 2010 IFRS	July 1, 2010 and January 1, 2011
IFRSs (Amendments)	Improvements to 2009 IFRS, which amends IAS 39 (see note below)	January 1, 2009 and January 1, 2010
IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	July 1, 2010
IFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	July 1, 2011
IFRS 7 (Amendment)	Disclosures - transfers of financial assets	July 1, 2011
IFRS 9 (Amendment)	Financial instruments	January 1, 2015
IAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	January 1, 2012
IAS 39 (Amendment)	Eligible hedged items (see note below)	Effective for a fiscal year ending on or after June 30, 2009

Note:

In the ROC, Taiwan Financial Reporting Standards (TFRS) is in compliance with the 2009 version of the IAS 39, but the amendment to IAS 39 that was issued by IASB in 2009 is not applicable temporarily.

The Company believes that the first-time and subsequent adoption of the foregoing new and revised standards, amendments or interpretations approved by FSC will not affect its financial statements, except for the following areas:

IFRS 9: Financial instruments

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets. In addition, financial assets that meet the following conditions are measured at amortized cost and assessed for impairment in subsequent periods:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms on the instrument state specific dates corresponding to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets are subsequently measured at fair value. However, upon initial recognition, the Company may choose to designate a financial asset as at FVTPL if such designation eliminates or significantly reduces a measurement or recognition inconsistency.

Investments in equity instruments are classified as at FVTPL, unless the Company designates an investment that is not held for trading as at FVTOCI on initial recognition. If investments in equity instruments are classified as at fair value through other comprehensive income (FVTOCI), except for dividends that are usually recognized in profit or loss in accordance with IAS 18 - Revenue, all gains and losses are recognized in OCI and will not be reclassified to profit or loss.

For financial liabilities, the main difference in classification and measurement refers to financial liabilities that are classified as at FVTPL. Under IFRS 9 - Financial Instruments, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. For financial liabilities previously classified as at FVTPL under IAS 39 - Financial Instruments: Recognition and Measurement, the amount of change in the fair value of the financial liability is recognized in profit or loss.

For its first-time adoption of IFRS 9 - Financial instruments, the Company expects that these items will be designated as at FVTOCI: (a) investments in equity instruments (not held for trading) that are initially classified as available-for-sale and measured at fair value at the end of each reporting period in accordance with IAS 39 - Financial Instruments: Recognition and Measurement; and (b) financial assets initially classified as financial assets carried at cost. In addition, the investment in mutual funds initially classified as available-for-sale will be reclassified to financial asset at FVTPL.