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2012 HTC ANNUAL REPORT

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2012 HTC ANNUAL REPORT

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LETTER TO SHAREHOLDERS

Dear shareholders,

Faced with increasingly intense competitive pressure in the global smartphone market, HTC Corporation (HTC) has in the past year continued to allocate resources to product development, technological innovation, and marketing in order to satisfy consumer needs and at the same time solidify HTC's core developmental ability.

2012 saw HTC reach its 15th anniversary, marking an important milestone. In February, at Mobile World Congress (MWC) held in Barcelona, HTC started a camera and audio revolution with the announcement of its One series of smartphones. These smartphones introduced new technological advances such as "Amazing Camera" and "Authentic Sound," bringing consumers a brand-new user experience. In addition, in order to meet the needs of different consumers, HTC has successfully rolled out a variety of smartphones such as the DROID DNA, HTC J, and HTC Butterfly that deliver superior performance and eye-catching, user-focused designs. These smartphones were positively received by the market. In addition, HTC jointly launched with Microsoft the Windows Phone 8X by HTC and the Windows Phone 8S by HTC, which won the "red dot award: product design 2013®". HTC have worked closely with global telecom carriers to provide the same great experience across various mobile device platforms.

HTC celebrated its 15th anniversary in mid-June with the grand opening of its new Taipei headquarters with a broad range of global technology and telecom industry leaders in attendance. The new headquarters achieved LEED (Leadership in Energy and Environmental Design) Gold certification. With the implementation of an all-weather carbon reduction program and provision of a quality workplace, colleagues can maximize their creative enthusiasm and lofty dreams. In July, our CEO was invited to pass the Olympic torch in London, promoting the symbols of friendship, honor, peace, and the Olympic spirit of fair competition. On top of that, he was able to publicize the concept of technological innovation at HTC, garnering international attention. In November, HTC reached a settlement with Apple, as both sides agreed to drop all patent litigation and signed a 10-year patent licensing contract. Both companies can now focus on product and research development.

At the end 2012, HTC released a corporate image advertisement. From a human perspective, employees were invited to convey HTC's positive attitude and share the power that comes from the commitment to our dreams. HTC fully demonstrates the determination of our continued investment in research, innovation, and marketing. Facing stern competition in the 2013 smartphone market, HTC will utilize its substantial resources and strengths to exhibit stronger momentum.

Financial Performance

Even with the competition and challenges of the smartphone industry in 2012, HTC was still able to maintain profitability. Full year consolidated revenues came in at NT$289 billion, with consolidated operating margins at 25.23%, combined operating margins at 6.51%, consolidated (attributable to parent company) after-tax net profit of NT$16.8 billion, and full year Earnings per share (EPS) at NT$20.17. HTC focused on its core operations, working diligently to achieve positive performance.

Product Development

As a smartphone innovation leader, HTC in 2012 created a new wave of mobile life experiences. In February 2012, the introduction of the HTC One™ series of smartphones brought a combination of "Amazing Camera" and "Authentic Sound" equipped with an exclusive imaging feature, ImageSense™, which further defined the camera user experience. This series of smartphones have stood out since their debut on the market.

In order to further satisfy the different needs of the market, HTC in 2012 released multiple smartphones that combine performance and ergonomic design. For instance, the release of the first 4G LTE Windows Phone named TITAN II, and the critically acclaimed entry-level Desire series smartphones. In the high-end space, HTC released of 5-inch Full HD smartphones such as the DROID DNA, a partnership with US carrier Verizon, HTC J Butterfly in cooperation with Japanese carrier KDDI, and the Butterfly in China and Taiwan. In addition, HTC worked with Microsoft to release the Windows 8X and Windows 8S by HTC, which won the Red Dot Award for design. HTC gives consumers more choices by partnering with global technology leaders.

In events held in both London and New York in February of 2013, HTC launched its new flagship smartphone HTC One. This smartphone upturns prior experiences with mobile usage, and encompasses a seamless metal uni-body design. The new HTC One comes with the latest HTC Sense® that incudes BlinkFeed™ , which gives the user a real time dynamic homepage to access global and personal social network news. HTC Zoe™ shooting mode uses HTC's UltraPixel-powered camera to bring image galleries to life. It redefines how people take pictures, play and share precious moments. In addition, HTC BoomSound™ provides the industry's best mobile audio experience, utilizing front-facing speakers and dedicated microphones. Add to that a Full HD screen, and users can immerse themselves in their music, movies, and games. In addition, the HTC Sense TV™ feature allows for the control of most TVs, box units, and receivers by transforming the smartphone into a remote control. By utilizing cloud services, users can watch TV shows now playing or their favorites.

After its announcement in London and New York, the new HTC One has been much discussed by the media and consumers. As it is has been successfully launched in different markets, the smartphone has also garnered praise and support. The new HTC One will bring a new concept and unique experience to the smartphone space.

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LETTER TO SHAREHOLDERS

Honor and Awards

HTC upholds a consumer-focused design philosophy, committed to working hard in the smartphone industry. Over the years, HTC has been recognized with many international awards. In 2011, not only did HTC receive the "Device Manufacturer of the Year" award at the Mobile World Congress (MWC), but placed in Interbrand's "Top 100 Global Brands". Furthermore, a multitude of outstanding smartphones were given honors for state-of-the-art technology, product design and innovation.

In 2012, HTC One X was honored as Best Android Smartphone by Men's Journal, Best Smartphone of MWC by Laptop Magazine, and Best in Show by Tom's Hardware. In addition, numerous awards were given by technology websites such as CNET, PC Magazine, Gizmodo, and Engadget. HTC One S also has won the Gold of Taiwan Excellence Award 2013 while the HTC One X received the Silver prize.

The subsequent launch of Windows 8X by HTC and DROID DNA by HTC also saw these smartphones being included in LAPTOP Magazine's 2012 Top 10 Best Smartphones. Windows 8X by HTC was also honored as Best Windows Phone by ZDNet. DROID DNA by HTC, the first smartphone with a 1080p Full HD screen, was recognized by ZDNet as 2012 Best Device Screen, and Top 5 Best Smartphones by CNET.

In February of 2013, HTC One was awarded The Best Mobile Handset, Device, or Tablet by GSMA (Global System for Mobile Communications Association). The GSMA award reaffirms HTC's design and innovation capability. Also, Tech Radar honored HTC One as MWC's Best Phone, and Best in Show. Mobile Geeks awarded it Best Smartphone.

Windows Phone 8X and Windows Phone 8S by HTC received the "red dot award: product design 2013®". The red dot award is the world's most influential industrial design award. Winning this award means that HTC's design innovation and excellence stands out from that of its competitors.

These awards are the best affirmation for HTC and showcase HTC's bold breakthroughs in terms of enhancing user experience and product innovation. HTC's commitment to innovation never stops.

Social Responsibility

HTC has always cared for the community, promoting public service as a duty and hoping to make a contribution. HTC Social Welfare Foundation has been a long-term sponsor of the welfare of disadvantaged groups, supporting educational programs at home and abroad, and providing scholarships to impoverished students globally. In addition, HTC Education Foundation is committed to promoting moral character and civic education programs. Apart from the donation of books, the foundation works with local and global educational institutions to plan educational projects, as well as actively initiating educational incentive programs. HTC Foundation and Taitung County Government signed a 30-year memorandum of cooperation in 2012 for the establishment of Taitung Character English Language Institute, and invited the University of Missouri - St. Louis Campus Character Education Chair Professor to come teach character leadership courses. These courses will hopefully encourage and assist participants to become active proponents of character education in the school leadership team. This will continue to deepen moral character and civic education in the country.

Vision for the Future

With global development and an increasing headcount, HTC's Taipei headquarters opened in June 2012. In response to market demand, the new plant, TY5, in Taoyuan will officially begin production in April. From past development cycles, HTC will be stronger and will strengthen its competiveness. Looking to the future, HTC will maintain its people-oriented principles, and continue to strengthen its brand value. By meticulously observing consumer's needs, HTC will release trend-setting, well-designed products that will allow users whether at home, work, or on the move, a seamless audio and visual experience. In 2013, HTC will focus on its core corporate development, as well as a global marketing strategy in order to continue to create value for our shareholders, customers and employees.

HTC Corporation

Chairperson

CEO & President

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LETTER TO SHAREHOLDERS

CHAPTER 2

COMPANY PROFILE

HTC - A Global Leader in Smartphone Innovation and Design

Founded in 1997, HTC built its reputation as the behind-the-scenes designer and manufacturer of many of the most popular OEM-branded mobile devices on the market.

We are dedicated to creating a customized user experience and believe that each mobile device needs to fit its owner, and not the other way around. What we make is not merely the product of focus group tests, but of observing and honoring how individuals choose to interact with technology.

The passion for innovation and the vision to create revolutionary, life-changing smartphone devices keeps HTC moving forward. HTC's portfolio of innovative handheld devices provides custom-made solutions to telecommunications clients and retail partners in Europe, Americas and Asia, and brings intuitive user experiences to consumers around the world. With many talented employees and strong leadership, HTC rapidly captured a significant share of the market with its design expertise and keen market insights. Designing products that meet consumer needs and lead market demand has earned HTC an impressive list of international recognition and awards. HTC is now the 5th largest smart phone brand globally. In 2011, the Mobile World Congress (MWC) named HTC its "Device Manufacturer of the Year"; that same year, HTC was also listed by Interbrand as one of the world's 100 most valuable brands.

In the long-term partnership with Microsoft, HTC launched flagship products for each generation of the Windows CE, Windows Mobile and Windows Phones platforms. With Google, HTC developed the world's first Android smartphone. Also ahead of the competition, HTC was the first company to launch 3G, 4G WiMAX and LTE smartphone devices in the world. In terms of product design, our belief in putting customer at the center leads to the birth of HTC Sense®, a user-centric perspective featuring the Amazing Camera that let users to capture every precious moment in life easily and Authentic Sounds that provide high fidelity audio experience. HTC

has repeatedly taken HTC Sense® to the next level to delight and surprise consumers. HTC believes that the new generations of smartphones are not only a communication tool but also an all-round mobile device that fulfills users' needs in entertainment, social networking, and personal lifestyle. Therefore, the **new HTC One** introduces **HTC BlinkFeed™, HTC Zoe™ and HTC BoomSound™**, key new HTC Sense® innovations that reinvent the mobile experience and set a new standard for smartphones.

HTC devotes itself to developing exciting Android and Windows Mobile devices with enhanced functionality and experiences. Looking into the future, HTC will continue to capture new market opportunities, strengthen the global business operation, and position itself as the number one smartphone brand to the consumers.

HTC's registration number on the Taiwan Stock Exchange (TWSE) is 2498.

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COMPANY PROFILE

Company History

HTC started with the goal of bringing the power of computing into the hands of people around the world. To date, we have been through three major transformations that have helped us reinvent ourselves and achieve new growth.

Professional PDA Designer

Soon after beginning operation in 1997, HTC was selected by Microsoft to develop products using Windows CE, the newly launched operating system designed specifically for consumer electronic products. The President (now the Director of the Board) HT Cho and the Vice President (now Chief Executive Officer) Peter Chou put together HTC's first R&D team and developed the world's first handheld personal data assistant (PDA) to run on Windows CE. This significant first step helped HTC become an important partner of Microsoft Corporation and built the solid foundation on which the HTC-Microsoft partnership continues to grow and flourish. The Compaq iPAQ, manufactured by HTC for Compaq Computer became a huge market success when launched in 2000 and started a new phase of success for HTC in the PDA segment.

Smart Phones Leader

HTC's second major turning point took place in 1999. A decision was made by the management to take the company into the telecommunications arena. Current HTC CEO Peter Chou saw the increasingly important role of mobile telecommunication products in the daily lives of consumers. Mr. Chou predicted that the GSM standard would spread from Europe to dominate U.S. and Japanese markets. Mr. Chou then visited Europe's largest telecommunications companies to discuss an innovative new approach for the industry – the development of "customized" devices for the wireless communication market. In 2002, HTC broke new ground in the industry by launching two new mobile wireless devices, the O2 XDA and Orange SPV in partnership with O2 (UK) and Orange (France) respectively. The products, designed around Microsoft's latest operating system, helped telecommunication service providers increase average revenue per user (ARPU) and earned worldwide attention.

HTC is the first to integrate Internet, entertainment, video and personal assistant functions into a mobile phone with a large, high-resolution, full-color display. This ushered in a new era in the history of the mobile phone. It was at this point that HTC began to develop products in partnership with customers and to tailor products based on telecommunications services provided by its customers. This marks the beginning of HTC's efforts in building a global sales and service network and entrance into the global telecommunications market.

HTC Brand

The launch of the HTC brand globally in 2007 committed the company formally to long-term global brand development. HTC subsequently launched HTC Touch, placing HTC in the front and center of growing worldwide excitement over touch screen smart phones. In 2009, HTC released the all-new user interface, HTC sense, delivering a simpler and much more intuitive user experience. HTC then proceeded to introduce its competitive new lineup to the world through its global "quietly brilliant" tagline and "YOU" advertising campaigns. HTC also began sponsoring the Tour de France and Wallpaper annual design awards. Each step along the way has been carefully considered to raise HTC brand awareness in all key markets.

Quietly brilliant is deeply rooted within HTC's corporate culture. We continuously roll out phones with innovative features to satisfy needs of different consumers, changing the way they enjoy mobile lifestyle. With the smartphone market booming in recent years, HTC has actively recruited outstanding talent in product design, user interface, brand, sales and marketing. Thanks to the great team work, HTC has received many global recognitions and awards including: "Device Manufacturer of the Year" at the Mobile World Congress (MWC) 2011 and the "Best Global Brands" by Interbrand in the year.

When HTC delivers quietly brilliant moments, consumers get an experience that is most personal, one that is worthy of a personal recommendation. Thus, the "As recommended by" campaign was launched along with the HTC One X's global launch in 2012 to advocate consumers' personal experience in using our innovated products.

2 COMPANY PROFILE

Kicking off in January, 2013, HTC becomes the official global phone supplier partner of the UEFA Champions League and UEFA Europa League. HTC is also the Official Global Smartphone Supplier Partner of the UEFA Super Cup Final in 2013 and 2014, and the UEFA Women's Champions League Final in 2013, 2014 and 2015. The partnership places HTC at the center of two of the world's most elite football competitions and will enable it to deliver new and innovative ways for fans around the world to get closer to the action. Whether in the stadium watching the game, or viewing content on a HTC device, fans will be there to share every moment.

While bringing the exceptional innovation and design capabilities to the world, HTC also invested significant resources into global marketing and operations. Looking forward, we firmly believe that HTC's focus, determination and expertise will continue to help us meet future challenges and makes HTC the first choice among smartphone brands.

Product development

HTC focuses on product design with performance, endurance, craftsmanship, and intuitive tools and interfaces, ensuring an elegant experience in a beautiful, minimalist package. HTC contributes a variety of innovations that include an amazing camera — cameras that rival leading point-and-shoot models and HD video that turns mobile screens into intimate, state-of-the-art theaters. And we make authentic sound a priority — we integrate Beats technology because it's not just the music you play that matters, but also the quality of the sound, set a new standard for smartphones

With the exploding development of mobile communications, people today immerse themselves in a constant stream of updates, news and information. Smartphones are one of the main ways we stay in touch with the people and information we care about. The new HTC One, launched in February of 2013, has re-imagined the mobile experience from the ground up to reflect this new reality.

HTC redefines the smart phone user experience

The new HTC One. Crafted with a distinct zero-gap aluminium unibody, the new HTC One introduces **HTC BlinkFeed™, HTC Zoe™ and HTC BoomSound™**, key new HTC Sense® innovations that reinvent the mobile experience.

HTC BlinkFeed™:
A personal live stream right on the home screen

At the center of the new HTC One experience is HTC BlinkFeed™. HTC BlinkFeed™ is a bold new experience that transforms the home screen into a single live stream of personally relevant information such as social updates, entertainment and lifestyle updates, news and photos with immersive images so that people no longer need to go to separate applications to find out what's happening. HTC BlinkFeed™ aggregates the freshest content from the most relevant and interesting sources, giving it to people at a glance, all in one place, without the need to jump between multiple applications and web sites.

To enable this new dynamic approach to the smartphone, HTC will provide both local and global content from more than 1,400 media sources with more than 10,000 articles per day from some of the most innovative media companies, such as the AOL family of media properties, ESPN, MTV, Vice Media, CoolHunting, Reuters and many others.

HTC UltraPixel Camera with HTC Zoe™
Your photo gallery brought to life

The breakthrough HTC UltraPixel Camera redefines how people capture, relive and share their most precious moments. HTC Zoe™ gives people the ability to shoot high-res photos that come to life in three-second snippets. These Zoes, photos and videos are then displayed in a unique way that brings the gallery to life and transforms the traditional photo gallery of still images into a motion gallery of memories. It also automatically creates integrated highlight films from each event comprised of Zoes, photos and videos set to music with professionally designed cuts, transitions and effects. These highlight videos can be remixed or set to different themes, and can be easily shared on social networks, email and other services.

To enable this innovative camera experience, HTC developed a custom camera that includes a best-in-class f/2.0 aperture lens and a breakthrough sensor with UltraPixels that gather 300 percent more light than traditional smartphone camera sensors. This new approach delivers astounding low-light performance and a variety of other improvements to photos and videos. In addition, the perfect self-portrait or video is just a tap away with an ultra-wide angle front-facing camera which supports 1080p video capture. Multi-axis optical image stabilisation for the rear camera also helps ensure video footage smoother whether stationary or on the move. HTC UltraPixel camera adds many other features and effects such as enhanced 360' panorama, time sequencing and object removal.

HTC BoomSound™
Dual frontal stereo speakers

The new HTC One offers the best audio experience of any mobile phone available today. HTC BoomSound™ introduces, for the first time on a phone, front-facing stereo speakers with a dedicated amplifier and an amazing full HD display that immerses people in music, videos, games and the YouTube™ clips they love. Beats Audio™ integration is enabled across the entire experience for rich, authentic sound whether you're listening to your favorite music, watching a YouTube video or playing a game.

HDR recording uses advanced dual microphones and audio processing to capture clean, rich sound that is worthy of high-definition video footage. Phone calls sound great on HTC One thanks to the addition of HTC Sense Voice™, which boosts the call volume and quality in noisy environments so that conversations come through loud and clear.

HTC introduces a new perspective on smartphones

HTC Sense TV transforms the new HTC One into an interactive program guide and remote control for most TVs, set-top boxes and receivers. Tapping the power of the cloud, Sense TV makes it simple and intuitive to see what's on and find that favorite show. Through an easy-to-set up accessory, HTC Media Link HD, HTC phones can wirelessly project content onto any television. Users can now easily watch photos, video, movies from their phones on a big screen TV. HTC changes how people listen to music in the car. With just one touch, users can easily access over 60,000 radio stations from 170 countries across the world.

Moreover, wrapped in a zero-gap aluminum uni-body and sporting a brilliant 4.7", Full HD (1080p) screen, the new HTC One has won the GSM Association award "The best new mobile handset, device, or tablet PC" at the 2013 Mobile World Congress (MWC).

Whether at home, outdoors, in the car or at work, HTC consumers will instantly access the highest quality audio-visual, entertainment and mobile communications services. The extremely competitive smartphone market has proven a trial-by-fire for HTC in every aspect of our business. It is the forge that created, and now sustains, our core competitive advantages. HTC is dedicated to unceasing pursuit of innovation and value creation to break new ground in the mobile industry.


Cher Wang

BOARD OF DIRECTORS AND SUPERVISORS


Wen-Chi Chen


HT Cho


David Bruce Yoffie


Tan Ho-Chen


Chen-Kuo Lin


Josef Felder


Shao-Lun Lee


Jerry H.C. Chu

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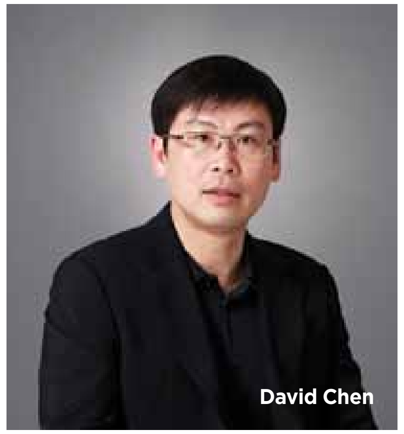
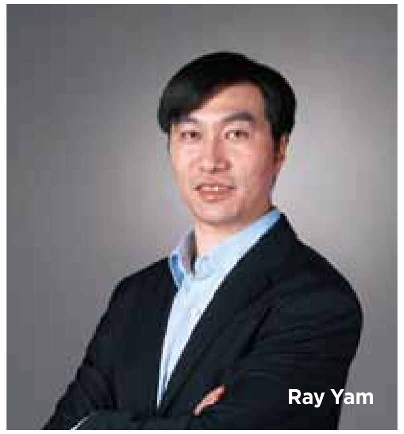
Supervisor on behalf of Way-Chih Investment Co., Ltd.

Jerry H.C. Chu
Supervisor

MANAGEMENT TEAM

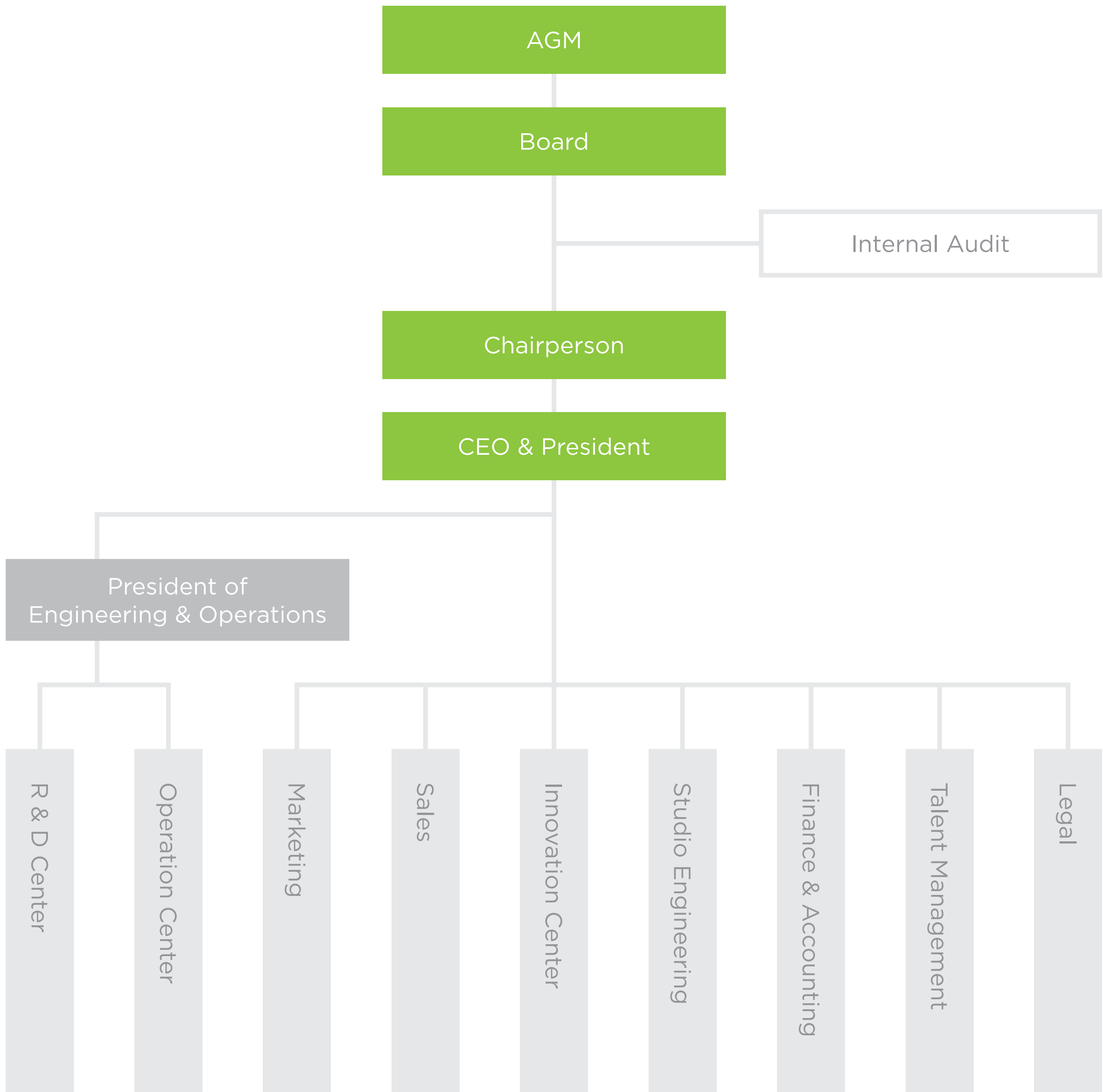
Cher Wang, Chairperson





Peter Chou	Chief Executive Officer & President
Fred Liu	President of Engineering and Operations
Chialin Chang	Chief Financial Officer
David Chen	Chief Engineering Officer
Ben Ho	Chief Marketing Officer
Scott Croyle	Senior Vice President and Head of Design
Matthew Costello	Chief Operating Officer
Grace Lei	General Counsel
Crystal Liu	Vice President, Talent Management
Jason Mackenzie	President of Global Sales Strategy
Mike Woodward	President of North America
Phil Blair	President of EMEA
Jack Tong	President of North Asia
Ray Yam	Head of HTC Communication, China
Simon Lin	Vice President, Studio Engineering
WH Liu	Vice President, Hardware Engineering
Simon Hsieh	Vice President, Wireless Software
CS Wang	Vice President, MFG Operation
Georges Boulloy	Vice President, Component Engineering & Quality Assurance
Steve Wang	Associate Vice President, MASD
Thomas Chien	Associate Vice President, Studio
James Chen	Associate Vice President, Finance & Accounting
Edward Wang	Associate Vice President, Finance & Accounting

ORGANIZATION



ORGANIZATION FUNCTIONS

President of Engineering & Operations

Fred Liu • President of Engineering and Operations

Responsible for execution of products research and development, responsible for global production management.

R & D Center

David Chen • Chief Engineering Officer

Responsible for R&D and fostering a research culture within the company.

Operations Center

Matthew Costello • Chief Operating Officer

Manage global production capacities, plant expansion, production and quality control; coordinate delivery schedules; manage global after-sales service to ensure HTC products meet customer demand / expectations.

Marketing

Ben Ho • Chief Marketing Officer

Responsible for global corporate image, public relations, global branding & marketing activities strategy and execution .

Sales

Peter Chou (Coucurrent) • CEO & President

Leads the global product sales, responsible for production promotion, new customer development, customer relations, customer service and communication.

Innovation Center

Scott Croyle • Senior Vice President and Head of Design

Conduct R&D work related to new technologies, potential future products and applications; provide results/ findings to other R&D departments for further development. To deliver stellar innovation and consistent user enjoyment, we will analyze market trends, develop and manage new product offerings, and simulate the growth direction and strategy of our products.

Studio Engineering

Simon Lin • Vice President, Studio Engineering

Responsible for development of design and innovation research strategy; conduct innovation products design and research.

Finance & Accounting

Chialin Chang • Chief Financial Officer

Responsible for corporate governance, investor relations, global tax planning, cash management, investment planning, risk management, shareholder services and business and cost analyses.

Talent Management

Crystal Liu • Vice President, Talent Management

Handle corporate human resource development and administration; promote HTC corporate culture and employee benefit programs; conduct organizational and human resource planning to support corporate development.

Legal

Grace Lei • General Counsel

Responsible for all HTC contracts, trademarks, patents, intellectual properties, lawsuits and other legal affairs.

Internal Audit

Ken Wang • Director

Audit effectiveness of internal systems and controls; assess accuracy of financial information and reports.

Worldwide Office Locations

HTC is headquartered in Taiwan with sales and service centers in Europe, the Americas and Asia to ensure our ability to service clients and enhance relationships with consumers. HTC maintains a presence in all key markets, including the United States, Canada, the United Kingdom, Germany, France, Italy, the Netherlands, Belgium, Spain, Poland, Denmark, Russia, China, Japan, Hong Kong, Singapore, Thailand, Myanmar, Indonesia, India, Malaysia, Australia, the United Arab Emirates (UAE) and Brazil.

Key HTC operation centers include:

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Fax: +44(0)1753-218961/62

Human Resources

Employees represent one of HTC's most valuable assets. The company has, in recent years, actively recruited outstanding talent into its ranks – particularly in the areas of product design, user interface, brand promotion, and sales and marketing. While bringing on professionals from Europe and the Americas, we have also invested significant resources into making the work environment at HTC diverse, challenging, and encouraging.

As of March 31, 2013, HTC employed 17,280 staff worldwide. 31.56% (452) of all HTC managerial positions are held by non-Taiwanese managers. Non-Taiwanese managerial and technical staff filled 15.41% of HTC managerial and technical positions. Women held 21.51% of HTC's 1,432 managerial positions.

Statistics related to the structure of human resources at HTC
(excluding outsourced labor)

Employees by Position Type

	Mar. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Management	1,432	1,473	1,317
Specialists	3,583	3,623	4,010
Administrators	1,340	1,280	1,240
Technical Staff	10,925	11,199	10,846
Total	17,280	17,575	17,413

Gender, Average Age and Average Years of Service

	Mar. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Male	9,646	9,798	9,982
Female	7,634	7,777	7,431
Average Age	31.28	31.20	29.73
Average Years of Service	1.99	1.81	2.16

Employees' Highest Level of Academic Achievement

	Mar. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Ph.D.	98	93	94
Master's	3,188	3,304	3,514
Bachelor's	5,093	5,202	5,668
Technical / Vocational	1,731	1,744	1,473
Other	7,170	7,232	6,664

CHAPTER 3

BUSINESS OPERATIONS

BUSINESS OPERATIONS

Industry Overview

The phenomenal success of the mobile internet is now pervasive in everyday life in many countries in the world, This has fueled rapid growth in related sectors including devices, network operators, application software and content. Mobile is the ideal platform for social networks - the fastest growing properties like Facebook, Twitter, Linkedin and WeChat enjoy the most rapid acceleration in users on their mobile versions. Smartphones are considered the "king of screens" for "always on" consumer behavior. In the world's top 19 digital markets, the current smartphone penetration is 35.5% and set to double to 71.7% by 2015 (ZenithOptimedia, 2013). The total smartphone market grew by 37% year on year in 2012 (Canalys). The fastest growth rate was in the world's biggest market which is now China. China grew by 40% year on year, and in Q4 2012 73% of all mobile shipments in China were smartphones. This is truly unique amongst other fast growing economies like India and Brazil, where feature phones still outsell smartphones significantly.

Mobile operators have played a considerable role in adding to the attraction of smartphones and mobile data through the deepening roll-out of 4G and LTE enabled networks. This promises the consumer faster downloading speeds and premium service capability. Many markets were enabled by an expanding availability of 4G and LTE devices. HTC has been at the front of these developments, launching the first 4G smartphone in the US, the first 4G LTE phone for Verizon and AT & T, the first GSM/WiMax 4G phone in Russia, the first 4G phone in Hong Kong and Australia, and the first 4G LTE Windows phones, amongst others. Global mobile data traffic grew by 70% in 2012 with mobile video traffic reaching 51% of all mobile data by the end of the year. The intensity of usage is quite remarkable when you put a super device on a super network – for a 4G connection, traffic per user is 19 times higher than for a non-4G connection. Across all smartphones, data usage increased from 189MB a month in 2011 to 342MB a month in 2012, up by 81% (Cisco VNI study, Feb 2013). The smartphone device itself has been a major driver of this usage revolution.

The consumer appeal of smartphones is boundless and also reflects a "perfect storm" of enabling technologies and new consumer behaviors. Advances in processing power and bespoke chipset developments facilitate the design and speed requirements to run many of the advanced experiences and applications on the brighter, sharper screens on today's "superphone". With the increase in screen size evident across the premium product range, design and ergonomics is becoming increasingly important to the user experience. Consumers want the "big screen" emotion with one-handed practicality. Devices are getting thinner and more elegantly crafted, but also need to offer excellent performance and connectivity. In previous generations of smartphones, the addition of functionality was the basis of innovation. Now it is expected that all devices offer two cameras, video capability, GPS, email, social networking, a music player, gaming, a myriad of productivity apps, and a very intuitive way of using all these things in a mobile context. The key to differentiation is about the overall consumer experience and the "quality" of each function. Advertising now talks about sharper sound, better low-light photos, video editing, exclusive content and smarter integration of applications within the user interface. Increasingly it is also about extending the phone to be useful with other devices and technologies. This is pushing the era of smartphones beyond just functions and applications and truly into a "superphone" age.

HTC has developed its range of devices with a universal offering of Amazing Camera, Authentic Sound and premium design and has continued to delight its customers with a highly personalized, customizable smartphone experience through HTC Sense. HTC One X was consistently rated the best Android device across the top publications in 2012 – scoring an average rating of 89.4% across 49 publications and beating all other smartphones on the market. HTC Butterfly has also topped sales leagues across Asian markets and enjoys great reviews with a "recommend to buy" rating above 90%. (Bazaarvoice, 2013). Globally, 48% of smartphone owners are considering HTC for their next smartphone which is a very solid testament to our track record of delivering superb smartphone products for tech-savvy consumers across major markets. (Hall & Partners, Dec 2012).

Market Analysis

As devices get more sophisticated and multi-functional, the strength and flexibility of the Operating System has become more apparent to consumers. The Android OS remains dominant with over 50% share throughout 2012 and increasing to 69.7% share in Q4, 2012 (Gartner). Gartner also suggested that 2013 would see some increased competition for the third most significant OS in the market – with BlackBerry OS (updating to BlackBerry 10 in March 2013) and Windows 8 holding 3.5% and 3.0% shares, respectively, in Q4 2012. Microsoft did see its share rise by 1.2% in Q4 2012 after an injection of new products, primarily from HTC and Nokia . A myriad of new players are also poised to emerge in 2013 – Tizen from Samsung, Ubuntu, Jolla and Firefox all featured strongly at the Consumer Electronics Show in January 2013 and hope to demonstrate a new profitable platform for device makers and developers alike.

Ingredient brands also had more effect within the market in the minds of the highest engaged consumers and retail salespeople. Qualcomm and Corning Glass stood out in defining quality and performance within the smartphone arena. Both are deeply associated with HTC's reputation for using the highest quality components and suppliers. These long standing partnerships serve to maximize the speed, craftsmanship and durability of the smartphone. Longer consumer contracts and more interaction with the product everyday make it a much tougher environment for smartphones. Consumers value build quality and robustness very highly when choosing their ideal device.

Samsung and Apple dominated the league tables of sales of smartphones and now account for 52% of worldwide sales (Gartner). The huge brand investment of Apple and Samsung exercises a relentless duopolistic force across the world. Interestingly, the rapid growth of the Chinese market and its influence on overall global shares brought brands like Lenovo, ZTE, Hauwei and Yulong into the top 10 manufacturers by Q4. Only 2.7% of market share separated the number three from the number twelve smartphone manufacturer in Q4, indicating the highly competitive nature of the market. HTC's market share in 2012 was 4% and remained the fastest growing international brand in China throughout 2012.

Business Scope

HTC has retained its focus on premium smartphones and continues to offer the consumer choice of both Android and Windows OS in a stunning array of designs. We sell devices in the affordable, mid-tier and super-phone categories and have extended our channel distribution beyond telecom operators and mobile retail channels into consumer electronics stores and other broader technology outlets as our brand awareness has grown. This includes e-commerce based channels like Amazon and Ebay, which are now becoming increasingly significant in shipping new smartphones in unsubsidized markets. We were the fastest growing international brand throughout most of 2012 in China (Canalys) and have seen increases in our distribution footprint into more stores in key cities across this market (Sino). India, Russia, Eastern Europe and SE Asia have also presented opportunities for us to expand our retail presence in these emerging markets. Localization has figured very strongly in our emerging market success, notably in India and China where we have researched and developed bespoke content, user interface innovations and application based offerings to really cater to local custom and practice. This will continue as we leverage our exceptionally fast time to market and our desire to make an HTC phone an extremely personal and relevant experience. In the fiercely competitive North American and European markets, we have used stand out design and rich experiences to differentiate our products. With the HTC One family, our award winning HTC 8X Windows phone and our top-selling HTC Butterfly range all receiving recognition for their beautiful appearance and fine craftsmanship, we continue to extend our lead in this area into 2013.

Analysis of Business Results

2012 saw the most competitive year yet for smartphones, with two companies dominating the revenue and profit charts across the globe. HTC remained the only other major company to stay profitable with the global launch of the HTC One family in April. This new franchise offered a 3-tiered product positioning strategy for premium quality smartphones. The HTC One X was rated higher than its Android flagship rivals throughout 2012 by industry experts and cemented Amazing Camera and Authentic Sound as two of the major selling features of smartphones across the category. Value offerings were marketed under the HTC Desire range. These products were targeted at consumers buying their first smartphone or seeking powerful value from a smartphone expert. In the autumn, we launched our colorful Windows-based HTC 8X and 8S to address another segment of consumer who admired the appeal of an OS that worked across all device platforms or perhaps was more familiar with a PC environment. Despite heavy competition in the more mature markets, HTC's growth in China and competitive portfolio across price points ensured a sturdy performance of NT$289.02 billion in revenue, generating NT$72.93 billion of gross profit .

Average smartphone prices did reflect some strong shifts in product mix within the category and also the rapid rise in geographical importance of lower priced markets in Asia, with China becoming not only the world's largest market but also it's fastest growing in 2012. Amidst this fierce category competition, we took the opportunity to look closely at optimizing our investment base. We grew our brand awareness amongst smartphone owners to over 80% across the globe and after six months of marketing the HTC One franchise it was recognized by nearly half all smartphone purchasers (Hall and Partners) . HTC is the third most considered brand after Samsung and Apple. Overall, HTC's consolidated selling and marketing expense in 2012 declined to NT$32.4 billion, down 19% from 2011. Consolidated operating expenses for the year totaled NT$54.1 billion. Benefitting from close cost management, HTC's consolidated operating expense ratio moved by just 5.2 percentage points for the year to 18.7%, which drove the consolidated operating profit margin (OPM) to 6.51%. Amidst this difficult trading picture, earnings per share (EPS) remained positive at NT$20.17.

Brand Strategy

HTC has continued to stand its ground as a brand that puts the consumer at the centre of the smartphone experience. The HTC One family broke new ground with the Amazing Camera innovations, Authentic Sound and an all-new simplified HTC Sense experience that scored industry leading customer delight scores. Our brand is most appreciated by younger, adventurous consumers who like to feel independent, respected and free to do things their way. They are always seeking something new and different and HTC appeals to them as being pioneers, always looking to innovate to a better solution, an authentic brand and a company that has let its actions speak louder than words or marketing budgets. Being quietly brilliant as a company and within our culture attracts their respect and loyalty. However, in 2012 both Apple and Samsung saw an increase in their advertising budgets of over 300% in some markets – so it is now necessary for HTC to approach the market in a more assertive manner, boldly protecting our innovation and establishing our unique experiences clearly with this more progressive consumer. While retaining our authentic nature and sense of playfulness, HTC will become more strident in offering the consumer a real alternative to the mainstream brands that no longer delight in innovation or breakthrough designs. At this time in the category we stand out as being the third-most desired brand, the brand that most consumers think will buy for their next mobile phone after Samsung and Apple and the brand that most 18 – 29 year old consumers think is "on the way up" (Hall & Partners 2013) Our flagship device for launch in Spring 2013 is the new HTC One. It features three major new innovations in camera, sound and home-screen experiences, contained in the first all-metal design. The new HTC One camera and sound have truly transformed consumer experiences in entertainment. Our product design also has surpassed the uninteresting, incremental changes that other so-called market leaders were able to bring to market. We have invented a new way to manage your favourite content so that it is both fresh and stimulating every time you pick up your phone. We have also made the basic tasks like switching to an HTC phone from a leading brand or syncing with a PC very simple to do. This is putting the consumer at the centre, celebrating the smartphone as your most intimate and personal accomplice in everything you do, and offers you the opportunity to bring new things to life by clearly demonstrating what other phones cannot do. We have a mix of mainstream marketing activities, such as sponsoring the UEFA Champions League, done in a unique HTC way through clever use of mobile internet and applications. HTC is taking new strides into non-traditional marketing that is based on how tech-savvy consumers live their lives today – multi-screening, multi-tasking, multi-purposing as they go. This is a bolder dawn for the HTC brand and an exciting development welcomed by the industry, which wants HTC to bring its stylish innovations and distinct smartphone obsession to a wider audience.

Progress in Research & Development

Since its inception, HTC has invested consistently to solidify in-house R&D capabilities. Today, R&D professionals account for almost 30% of HTC's headcount, and annual R&D investments regularly represent 3 to 4 percent of total revenues. HTC products are frequent trailblazers, earning a long line of "firsts" that includes the world's first Windows Mobile and Android smartphones, first dual-mode GSM/WiMAX phone, first 3G/4G Android phone, and first LTE Android phone. HTC Sense, launched in 2009, was a momentous breakthrough that revolutionized the mobile phone experience. In 2011, HTC launched several enhanced cloud and audio-visual services such as HTC Watch™ and Beats Audio™. Such exclusive service features uniquely enhance and enrich the HTC user experience.

HTC has earned its leading position in the smartphone sector through innovation and exceptional understanding of industry and consumer trends. Nowhere is this more apparent than in the Android and Windows Phone markets. In 2011, with markets shifting up to 4G high-speed mobile networks, HTC launched HTC Thunderbolt and HTC Titan II - the world's first LTE Android and LTE Windows Phone smartphones. Milestones like these further highlight HTC's leadership in critical technologies.

HTC unveiled the HTC One family at the 2012 Mobile World Congress (MWC). This newest addition to HTC's portfolio further streamlined the user experience with unparalleled design aesthetics, a best-in-class camera and high quality Beats Audio. The HTC One was the only smartphone in its class with exceptionally high audio and visual resolutions, the latest version of Android 4.0 (ICS), a fully updated HTC Sense™ 4 interface, and the all-new ImageSense™ enhanced image and video capture functions.

In order to further satisfy the different needs of the market, HTC in 2012 released multiple smartphones that combined performance and ergonomic design. For instance, the release of the first 4G LTE Windows Phone, named TITAN II. In addition, HTC also featured the critically acclaimed entry-level Desire series smartphones. In the high-end space, HTC released 5-inch full HD smartphones, such as the DROID DNA in a partnership with US carrier Verizon, the HTC J Butterfly in cooperation with Japanese carrier KDDI, and the Butterfly in China and Taiwan. Together with Microsoft, HTC released the Windows 8X and 8S. HTC continues to give consumers more choices by partnering with global technology leaders.

At a product launch held in London and New York in February of 2013, HTC unveiled the new flagship smartphone HTC One. The device disrupts the traditional mobile expereince, and features a seamless metal unibody design. The new HTC One comes with the latest HTC Sense® that incudes BlinkFeed™ , which gives the user a real-time dynamic homepage to access global and personal social networks news. HTC Zoe™ shooting mode uses HTC's UltraPixel-powered camera to bring image galleries to life. It redefines how people take pictures, play and share precious moments. In addition, HTC BoomSound™ provides the industry's best mobile audio experience, utilizing front-facing speakers and dual dynamic microphones. Add to that a full HD screen, and users can immerse themselves in their music, movies, and games. In addition, HTC Sense TV™ allows for the control of most TVs, set-top boxes, and receivers by transforming the smartphone into a remote control.

3 BUSINESS OPERATIONS

R&D Expenditures in Recent Years

Unit: NT$ millions

	2012	2011	2013 Q1
Worldwide R&D Expenditures	15,490	16,295	3,168
As a Percentage of Worldwide Revenue	5.4%	3.4%	7.4%

Corporate Governance

HTC is committed to implementing good governance, effective risk management and information transparency. HTC policies related to these corporate governance are explained further below:

1. Independent Director Positions Created

In accordance with the Securities and Exchange Law, HTC elected two independent directors at its board re-elections in 2010, in order to strengthen the independence and functions of Directors and enhance the operational effectiveness of the Board.

2. Remuneration Committee Created

In compliance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or Traded Over-the-Counter" as per Letter No.1000009747 issued by the Financial Supervisory Commission of the Executive Yuan on March 18, 2011, the Board of Directors resolved to adopt the Company's Compensation Committee Charter and appoint Independent Director Mr. Chen-Kuo Lin; Director Mr. HT Cho and independent professional advisor Mr. Harvey Chang to the Company's Compensation Committee on December 22, 2011. The official functions of the Committee are to professionally and objectively evaluate the policies and systems for the compensation of HTC directors, supervisors, and managers, and submit recommendations to the Board of Directors for its reference in decision making.

3. Board of Supervisor Proceedings

Meetings of the Board of Supervisors take place every quarter, at which financial, legal, internal audit and other issues are reported. Issues reviewed by supervisors and certified public accountants include risk management, intercompany transactions, changes in accounting policies, assessments of IPR infringement risk, and reasonableness of provision and accrual items to be presented on financial reports.

4. Disclosure of Information & Financial Forecasts

HTC has been working diligently to enhance the timeliness and transparency of financial disclosures. In addition to online disclosure of important data related to HTC's business in accordance with regulations, quarterly earnings calls are held for investors every quarter, at which revenue, margin and expense forecasts are provided. Investor teleconferences are also held to keep investors updated on the latest business operations.

Apart from regular disclosures, HTC also participates actively in investor forums and conferences in Taiwan and overseas as well as proactively visits major investment houses and investors to enhance communication with the investment community.

5. Stable Dividend Policies

HTC maintains stable dividend policies. Factors considered in determining dividend distributions include current and future investment environments, capital needs, domestic and international competition, and budgetary considerations. Shareholder interests and the balance between dividend distributions vs. longer-term financial planning are also considered. The Board of Directors, in accordance with regulations, sets a distribution plan each year for submission to shareholders.

3
BUSINESS OPERATIONS

MAJOR SUPPLIERS/CUSTOMERS REPRESENTING AT LEAST 10% OF GROSS PURCHASE/REVENUE FOR THE MOST RECENT TWO-YEAR PERIOD

1. Major suppliers representing at least 10% of gross purchase

Unit: NT$ millions

2012

Supplier Code	Amount	%	Relation to HTC
a	20,780	13	None
Others	139,025	87	
Total	159,805	100	

2011

Supplier Code	Amount	%	Relation to HTC
a	39,439	15	None
Others	220,538	85	
Total	259,977	100	

2013 1Q

Supplier Code	Amount	%	Relation to HTC
a	7,716	19	None
Others	31,740	81	
Total	39,456	100	

2. Major customers representing at least 10% of gross revenue

Unit: NT$ millions

2012

Customer Code	Amount	%	Relation to HTC
Others	289,020	100	
Total	289,020	100	

2011

Customer Code	Amount	%	Relation to HTC
A	75,244	16	None
B	47,542	10	None
C	63,092	14	None
Others	279,917	60	
Total	465,795	100	

2013 1Q

Customer Code	Amount	%	Relation to HTC
D	4,673	11	None
Others	38,116	89	
Total	42,789	100	

Variance analysis: To meet business demands.

3 BUSINESS OPERATIONS

PRODUCTION AND SALES FOR THE MOST RECENT TWO-YEAR PERIOD

Production

Unit: 1,000 units / NT$ millions

2012	Production Capacity	Production Quantity	Production Value
Smartphones	59,517	32,863	168,434
Total	59,517	32,863	168,434

2011	Production Capacity	Production Quantity	Production Value
Smartphones	49,470	46,571	263,261
Total	49,470	46,571	263,261

Note 1: Production capacity represents the normal capacity of current production equipment after making adjustments for necessary production stoppages, non-work holidays, etc.

Sales

Unit: 1,000 units / NT$ millions

2012	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	7,545	20,338	139,070	262,577
Total	7,545	20,338	139,070	262,577

2011	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	12,630	20,056	146,899	443,823
Total	12,630	20,056	146,899	443,823

Note: Main product item data not inclusive of income from maintenance / repairs or product development work.

PRINCIPAL CONTRACTUAL AGREEMENTS

Principal current contractual agreements shown below were effective or expired during the most recent reporting period.

Contractor	Contract Term	Description
Apple Inc.	November 11, 2012 – November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalties payable as prescribed.
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 terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
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 stated 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.

CHAPTER 4

CORPORATE GOVERNANCE

1. Information on the Company's Directors, Supervisors, General Manager, Assistant General Managers, Deputy Assistant General Managers, and Managers of all the Company's divisions and branch units

1. Directors and Supervisors:

(1) Directors' and Supervisors' Information (I)

2013.05.15 ; Unit : Share ; %

Title	Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Shareholding (Note)		Other persons holding shares in their name (Note)		Principal work experience and academic qualifications	Positions held concurrently in the company and/or any other company	Other executives, Directors and Supervisors who are spouses or within second-degree of kinship		
					shares	%	shares	%	shares	%	shares	%			Title	Name	Relation
Chairman	Cher Wang	2010.06.18	2013.06.17	1999.04.30	24,736,896	3.20%	32,272,427	3.79%	22,391,389	2.63%	0	0.00%	• Bachelor in Economics, University of California, Berkeley. • General Manager of the PC Division, First International Computer, Inc. (FIC)	• Chairman, Via Technologies, Inc. • Director, Formosa Plastics Corporation • Chairman (Representative), H.T.C. (B.V.I) Corp. • Chairman (Representative), HTC Investment One (BVI) Corporation • Chairman (Representative), Chander Electronics Corp. • Non-executive Director, Television Broadcasts Limited	Director	Wen-Chi Chen	Spouse
Director	HT Cho	2010.06.18	2013.06.17	2001.04.23	205,143	0.03%	145,530	0.02%	0	0.00%	0	0.00%	• Electronic Engineering, National Taipei Institute of Technology. • EMBA, National Chiao Tung University • President & CEO, HTC Corporation. • Consulting Engineer, Digital Equipment Corporation.	• Chairman, HTC Social Welfare Foundation. • Chairman, HTC Education Foundation. • Director, Chunghwa Telecom Foundation. • General Manager, Atrust Corporation • Director, China University of Technology • Director, Asia Pacific Fuel Cell Technologies, Ltd. • Compensation Committee member, Associated Industries China, Inc.	None	None	None
Director	Wen-Chi Chen	2010.06.18	2013.06.17	1999.04.30	20,309,651	2.62%	22,391,389	2.63%	32,272,427	3.79%	0	0.00%	• MSCS, The California Institute of Technology. • President, Symphony Laboratories.	• President & Director, VIA Technologies, Inc. • Chairman (Representative), Xander International Corp. • Non-executive Director, Television Broadcasts Limited	Chairman	Cher Wang	Spouse
Director	Tan Ho-Chen	2010.06.18	2013.06.17	2009.06.19	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• Bachelor in Civil Engineering, National Chung-Hsing University • Master in Regional and Urban Planning, Virginia Polytechnic Institute and State University, VA/ USA • Advanced study in Hunter College, CUNY, NY/USA and Humphrey Fellow • President, THI Engineering Consulting Co. • Director, Department of Transportation, Taipei City Government • Executive Vice Minister, Ministry of Transportation and Communication • Chairman, Chung Hua Telecommunication Co.	• Independent Director, KD Holding Corporation	None	None	None
Director	David Bruce Yoffie	2011.06.15	2013.06.17	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• B.A. Brandeis University • M.A., Ph.D. Stanford University for academic qualification • Director, Charles Schwab • Director, Spotfire • Director, E Ink	• Max and Doris Starr Professor at Harvard Business School • Director, Intel Corporation • Director, The National Bureau of Economic Research • Director, MindTree Ltd. • Director, Financial Engines, Inc. • Director, TiVo Inc.	None	None	None
Independent Director	Chen-Kuo Lin	2010.06.18	2013.06.17	2007.06.20	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• Bachelor in Economics, National Taiwan University. • Advanced study at the Department of Economics, Oklahoma State University. • Advanced study at the Department of Economics, Harvard University. • Chairman, Board of Tunghai University. • Minister, Ministry of Finance, Executive Yuan. • Chairman, Taiwan External Trade Development Council. (TAITRA) • Chairman, Taiwan Asset Management Corporation. • Professor, Department of Economics in National Taiwan University. • Chairman, Taiwan-Hong Kong Economic and Cultural Co-operation Council	• Independent director, Taiwan High Speed Rail Corporation. • Chairman, Angel Hearts Family Social Welfare Foundation. • Compensation Committee member, Taiwan High Speed Rail Corporation.	None	None	None

(Continued)

Title	Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Shareholding (Note)		Other persons holding shares in their name (Note)		Principal work experience and academic qualifications	Positions held concurrently in the company and/or any other company	Other executives, Directors and Supervisors who are spouses or within second-degree of kinship		
					shares	%	shares	%	shares	%	shares	%			Title	Name	Relation
Independent Director	Josef Felder	2010.06.18	2013.06.17	2007.06.20	0	0.00%	133,985	0.02%	0	0.00%	0	0.00%	• Graduate of Advanced Management Program (AMP), Harvard Business School, Boston • Deputy Director, Crossair • Chief Executive Officer, FIG (Flughafen Immobilien Gesellschaft) • Chief Executive Officer, Unique (Flughafen Zurich AG)	• Independent director, Careal Holding AG, Zurich • Independent director, AMAG, Zürich • Independent director, Zingg-Lamprecht AG, Zurich • Independent director, Edelweiss Air AG, Zurich • Chairman, Gutsbetrieb Oetlishausen AG, Hohentannen • Chairman, Pro Juventute, Zurich • Independent director, Luzerner Kantonalbank AG, Lucerne • Independent director, Victoria Jungfrau Collection, Interlaken • Chairman, Flaschenpost AG, Zürich • Chairman, The Nuance Group • Independent Director, Zino Davidoff SA, Fribourg	None	None	None
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	2010.06.18	2013.06.17	1999.04.30 2006.04.13	39,745,389	5.14%	43,819,290	5.14%	0	0.00%	0	0.00%	• Ph.D in Material Science and D.Eng in Electrical Engineering, UCLA. • Executive Vice President, Lam Research Co., Ltd.	• Director, IC Broadcasting Co., Ltd • Vice President, Via Technologies, Inc. • Director, Chinese Christian Faith, Hope and Love Foundation. • Director, Via Faith, Hope and Love Foundation.	None	None	None
Supervisor	Huang-Chieh Chu	2011.06.15	2013.06.17	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• MBA, University of Toronto, Canada • LL.B., Department of Law, National Taiwan University • Director and President, Taiwan Teleservices & Technologies Co., Ltd. • Supervisor, Taiwan Fixed Network Co., Ltd. • Vice President, Consumer Business Group of Taiwan Mobile Co., Ltd. • Vice President, Citibank, N.A., Taipei Branch • Director, KG Telecommunications Co., Ltd.	• Chief Administrative Officer, Via Faith, Hope and Love Foundation.	None	None	None

(Concluded)

Note: Shareholding as of 2013.04.23

(2) Major shareholders of Institutional Shareholders

2013.05.15

Name of Institutional Shareholders	Major shareholders of Institutional Shareholders
Way-Chih Investment Co., Ltd.	Chinese Christian Faith, Hope and Love Foundation
	Via Faith, Hope and Love Foundation

(3) Major shareholder(s) to the company listed in the above table on the right hand column：

The Institutional Shareholder is a foundation, no major shareholders.

(4) Directors' and Supervisors' Information (II)

2013.05.15

Name \ Conditions		Meet one of the following professional qualification requirements, together with at least five years work experience: An instructor (or higher) in a department of commerce, law, finance, accounting, or other academic departments related to the business of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in commerce, law, finance, accounting, or other areas relevant to the business of the company	Conforms to criteria for independence (note): 1	2	3	4	5	6	7	8	9	10	Number of other public companies concurrently serving as an independent director
Chairman	Cher Wang			✓							✓		✓	✓	0
Director	HT Cho			✓	✓		✓	✓	✓		✓	✓	✓	✓	0
Director	Wen-Chi Chen			✓							✓		✓	✓	0
Director	Tan Ho-Chen			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	1
Director	David Bruce Yoffie	✓			✓		✓	✓	✓	✓	✓	✓	✓	✓	0
Independent Director	Chen-Kuo Lin	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Independent Director	Josef Felder			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Supervisor (Representative Shao-Lun Lee)	Way-Chih Investment Co., Ltd.	Not applicable													
Supervisor	Huang-Chieh Chu			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	0

Note： Directors and Supervisors, during the two years before being elected or during the term of office, meet any of the following criteria:

(1) Not an employee of the Company or any of its affiliates.
(2) Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent Company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, children of minor age, or held by the person under others' names, in an aggregate amount of 10% or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.
(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings.
(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified Company or institution that has a financial or business relationship with the Company.
(7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, Company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. The same does not apply, however, in cases where the Compensation committee member exercises of power per the Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
(8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
(9) Not been a person of any conditions defined in Article 30 of the Company Law.
(10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

2. General Manager, Assistant General Managers, Deputy Assistant General Managers, and Managers of all divisions and branch units:

2013.05.15；Unit：Share; %

Title	Name	Date Elected	Shareholding (note)		Spouse & Minor Shareholding (note)		Other persons holding shares in their name (note)		Principal work experience and academic qualifications	Positions held concurrently in any other company	Managers with spouses or relatives within second-degree of Kinship		
			shares	%	shares	%	shares	%			Title	Name	Relation
Chief Executive Officer & President	Peter Chou	2004.04.30	4,558,843	0.54%	1,190,038	0.14%	0	0.00%	• Bachelor in Electronic Engineering, National Taiwan Ocean University. • Director, Server Platform Design Division, Digital Equipment Corporation.	• Director (Representative), High Tech Computer Asia Pacific Pte. Ltd. • Chairman (Representative), HTC I Investment Corporation • Director (Representative), High Tech Computer (H.K.) Limited • Supervisor (Representative), PT. High Tech Computer Indonesia • Director (Representative), HTC EUROPE CO. LTD. • Director (Representative), Beats Electronics, LLC • Chairman (Representative), HTC Investment Corporation • Chairman (Representative), Huada Digital Corporation • Director (Representative), HTC Philippines Corp. • Director (Representative), S3 Graphics Co, Ltd. • Director (Representative), HTC America, Inc. • Director, High Tech Computer Corp. (Suzhou)	None	None	None
President of Engineering and Operations	Fred Liu	2006.04.24	1,750,641	0.21%	500,000	0.06%	0	0.00%	• Bachelor in Electrical Engineering, Tatung University. • Director, PC Server Engineering Division, Digital Equipment Corporation.	• Chairman (Representative), Communication Global Certification Inc. • Director (Representative), HTC Investment Corporation • Chairman, High Tech Computer Corp. (Suzhou) • Director (Representative), PT. High Tech Computer Indonesia • Chairman, HTC Communication Co., Ltd. • Director (Representative), S3 Graphics Co, Ltd. • Director (Representative), HTC EUROPE CO. LTD. • Director (Representative), HTC America, Inc. • Director, HTC Electronics (Shanghai) Co., Ltd. • Director (Representative), High Tech Computer Asia Pacific Pte. Ltd. • Director (Representative), HTC I Investment Corporation • Director (Representative), HTC Philippines Corp. • Director (Representative), HTC (Thailand) Limited • Director (Representative), HTC HK, Limited • Executive Director, HTC Corporation (Shanghai WGQ) • Director (Representative), HTC Belgium BVBA/SPRL • Director (Representative), HTC NIPPON Corporation	None	None	None
Chief Financial Officer	Chialin Chang	2012.04.16	0	0.00%	0	0.00%	0	0.00%	• PhD in Electrical Engineering, Princeton University. • MBA, The Wharton School of the University of Pennsylvania. • Partner, Goldman Sachs. • Engineer, Motorola (US).	• Director (Representative), HTC Holding Cooperatief U.A. • Director (Representative), Dashwire, Inc. • Director (Representative), HTC America Content Services, Inc. • Director (Representative), HTC I Investment Corporation • Director (Representative), Saffron Digital Limited • Director (Representative), Beats Electronics, LLC • Director (Representative), HTC America Holding, Inc. • Director (Representative), Inquisitive Minds, Inc. • Director (Representative), HTC Investment Corporation • Director (Representative), Saffron Media Group Limited • Director (Representative), Saffron Digital Inc. • Director (Representative), HTC Luxembourg S.a.r.l.	None	None	None
Chief Engineering Officer	David Chen	2007.05.08	345,273	0.04%	212,901	0.02%	0	0.00%	• Bachelor in Electronic Engineering, National United College. • Principal Engineer, Digital Equipment Corporation.	• Chairman, HTC Communication Technologies (Shanghai) Limited • Director (Representative), Communication Global Certification Inc.	None	None	None
Chief Marketing Officer	Ben Ho	2013.02.19	0	0.00%	2,000	0.00%	0	0.00%	• MBA, Stamford Group of Colleges, Singapore • Vice President of Business Strategy & Marketing, Far EasTone Telecommunications • Vice President and Chief Marketing Officer, Motorola Asia Pacific Ltd.	• Director (Representative), Huada Digital Corporation	None	None	None
Senior Vice President and Head of design	Scott Croyle	2012.10.26	37,503	0.00%	0	0.00%	0	0.00%	• Bachelor in Mechanical Engineering, The University of Texas as Austin • Owner, One & Co • Client/Program Manager, Moto Development Group	None	None	None	None
Chief Operating Officer	Matthew Costello	2010.11.01	50,000	0.01%	0	0.00%	0	0.00%	• Bachelor in Economics, Duquesne University. • Corporate Vice President, Global Operations and Corporate Development and Planning, Sony Ericsson Mobile Communications. • Partner, Managing Director and Vice President of Supply Chain, Andersen LLP.	• Director (Representative), Beats Electronics, LLC • Director, HTC Electronics (Shanghai) Co., Ltd.	None	None	None
General Counsel	Grace Lei	2007.05.08	87,798	0.01%	5,868	0.00%	0	0.00%	• Master in Laws, University of Pennsylvania. • Master in Laws, National Taiwan University. • Partner, Winkler Partners Attorneys at Law of Taiwan and Foreign Legal Affairs. • Partner, Tsai, Lee & Chen Co., Ltd.	• Director (Representative), S3 Graphics Co, Ltd.	None	None	None
Vice President, Talent Management	Crystal Liu	2012.04.24	17,000	0.00%	0	0.00%	0	0.00%	• MBA, Oklahoma City University. • HR Director, DuPont • APAC Business Group HR Manager, Intel Microelectronics Asia Ltd. • HR Manager, BRS Nike Taiwan	None	None	None	None

(Continued)

4 CORPORATE GOVERNANCE

Title	Name	Date Elected	Shareholding (note)		Spouse & Minor Shareholding (note)		Other persons holding shares in their name (note)		Principal work experience and academic qualifications	Positions held concurrently in any other company	Managers with spouses or relatives within second-degree of Kinship		
			shares	%	shares	%	shares	%			Title	Name	Relation
President of Global Sales Strategy	Jason Mackenzie	2007.09.26	63,729	0.01%	0	0.00%	0	0.00%	• Bachelor in Business Administration, Point Loma Nazarene University. • Vice President, Siemens Communications.	• Director (Representative), HTC Communication Canada, Ltd. • Director (Representative), Beats Electronics, LLC	None	None	None
President of North America	Mike Woodward	2012.10.26	0	0.00%	0	0.00%	0	0.00%	• MBA, Chapman University, The George L. Argyros School of Business and Economics • Vice President, Device and Accessory Portfolio of AT&T	None	None	None	None
President of EMEA	Phil Blair	2013.05.01	34,449	0.00%	0	0.00%	33,475	0.00%	• MBA, Durham University, UK • Head of Handset Commercialisation, Orange Group (London)	None	None	None	None
President of North Asia	Jack Tong	2007.07.01	67,858	0.01%	0	0.00%	0	0.00%	• Bachelor in Civil Engineering, Feng Chia University. • Chief Executive Officer, Dopod International Corp.	• Chairman (Representative), HTC Innovation Limited • Director, HTC Communication Co., Ltd.	None	None	None
Head of HTC Communication, China	Ray Yam	2011.03.17	12,750	0.00%	0	0.00%	0	0.00%	• Bachelor in Science, Chinese University of Hong Kong. • VP & General Manager of Mobile Communication Business, LG Electronics (China) Co., Ltd. • Executive Vice President, Eternal Asia Supply Chain Management Ltd. • Vice President and General Manager, Mobile Devices Business, Motorola (China) Electronics Ltd.	None	None	None	None
Vice President, Studio Engineering	Simon Lin	2008.06.01	55,250	0.01%	0	0.00%	0	0.00%	• Master in Electrical Engineering, University of Texas. • Director, R&D, Digital Equipment Corporation.	None	None	None	None
Vice President, Hardware Engineering	WH Liu	2008.06.01	85,675	0.01%	0	0.00%	0	0.00%	• Master in Electronic Engineering, National Taiwan University of Science and Technology. • Senior Manager, WM System Architecture Design.	None	None	None	None
Vice President, Wireless Software	Simon Hsieh	2008.06.01	16,000	0.00%	0	0.00%	0	0.00%	• Master in Computer Science and Information Engineering, National Taiwan University • Assistance Manager, ASUS.	• Director (Representative), Communication Global Certification Inc.	None	None	None
Vice President, MFG Operation	CS Wang	2001.03.12	119,448	0.01%	1,000	0.00%	0	0.00%	• MBA, Michigan State University. • Vice President, Production Enterprise, RCA.	• Chairman, HTC Electronics (Shanghai) Co., Ltd. • Director, High Tech Computer Corp. (Suzhou) • Director, HTC Communication Co., Ltd.	None	None	None
Vice President, Component Engineering & Quality Assurance	Georges Boulloy	2010.12.01	44,200	0.01%	0	0.00%	0	0.00%	• Master in Physics Engineering, Ecole des Mines. • VP & Head of Sourcing & Partner Management, Sony Ericsson Mobile Communications. • Senior VP wireless BU, Quanta Computers.	None	None	None	None
Associate Vice President, MASD	Steve Wang	2008.06.01	28,000	0.00%	6,000	0.00%	0	0.00%	• Master in Information Science, Azusa Pacific University. • VP, IA Style Inc.	None	None	None	None
Associate Vice President, Studio	Thomas Chien	2011.04.01	40,000	0.00%	1,000	0.00%	0	0.00%	• Master in Department of Industrial Design, Shih Chien University. • Design Engineer, Premier Image Technology Corporation.	None	None	None	None
Associate Vice President, Finance & Accounting	James Chen	2009.02.10	4,200	0.00%	0	0.00%	0	0.00%	• MBA, National Chen-Chi University. • Manager, TSMC. • BU Controller, LITE-ON.	• Supervisor (Representative), Communication Global Certification Inc. • Supervisor, HTC Communication Technologies (Shanghai) Limited • Supervisor, HTC Electronics (Shanghai) Co., Ltd. • Director (Representative), HTC (Australia and New Zealand) PTY LTD • Director (Representative), HTC America Innovation, Inc. • Supervisor, HTC Corporation (Shanghai WGO) • Chairman(Representative), Yoda Co., Ltd.	None	None	None
Associate Vice President, Finance & Accounting	Edward Wang	2009.03.10	4,140	0.00%	0	0.00%	0	0.00%	• MBA, Tunghai University. • VP, Hotung Group.	• Supervisor (Representative), HTC Investment Corporation • Director (Representative), HTC (Australia and New Zealand) PTY LTD • Director (Representative), HTC Malaysia Sdn. Bhd. • Director (Representative), HTC Nordic ApS • Director (Representative), HTC Poland sp zo.o. • Director (Representative), HTC Norway AS. • Director (Representative), HTC Communication Sweden AB • Director (Representative), HTC NIPPON Corporation • Supervisor (Representative), Huada Digital Corporation • Supervisor (Representative), HTC I Investment Corporation • Director (Representative), HTC India Private Limited • Director (Representative), HTC Belgium BVBA/SPRL • Director (Representative), HTC Iberia S.L.U. • Director (Representative), HTC Communication Canada, Ltd. • Director (Representative), HTC RUS LLC. • Director (Representative), One & Company Design, Inc. • Supervisor, HTC Communication Co., Ltd.	None	None	None

(Concluded)

Note：Shareholding as of 2013.04.23 (Including Shares under Trust with Discretion Reserved.)

4 CORPORATE GOVERNANCE

3. Remuneration paid during the most recent fiscal year to Directors, Supervisors, General Manager, and Assistant General Managers

(1) Remuneration paid to Directors (Including Independent Director)

2012；Unit：NT$ thousands

Title	Name	Remuneration paid to Directors: Salary (A) (Note 1) – HTC	Salary (A) (Note 1) – All Consolidated Entities (Note 8)	Retirement pay (B) – HTC	Retirement pay (B) – All Consolidated Entities (Note 8)	Compensation from profit sharing (C) (Note 2) – HTC	Compensation from profit sharing (C) (Note 2) – All Consolidated Entities (Note 8)	Allowance (D) (Note 3) – HTC	Allowance (D) (Note 3) – All Consolidated Entities (Note 8)	Total Remuneration (A+B+C+D) as a percentage of net income (%) (Note 7) – HTC	Total Remuneration (A+B+C+D) as a percentage of net income (%) (Note 7) – All Consolidated Entities (Note 8)	Compensation earned as employee of HTC subsidiary affiliates: Salary,Bonuses, and Allowance (E) (Note4) – HTC	Salary,Bonuses, and Allowance (E) (Note4) – All Consolidated Entities (Note 8)	Retirement pay (F) – HTC	Retirement pay (F) – All Consolidated Entities (Note 8)	Employee profit sharing (G) (Note 5) – HTC – Cash	Employee profit sharing (G) (Note 5) – HTC – Stock	Employee profit sharing (G) (Note 5) – All Consolidated Entities (Note 8) – Cash	Employee profit sharing (G) (Note 5) – All Consolidated Entities (Note 8) – Stock	Exercisable Employee Stock Options (H) (Note 6) – HTC	Exercisable Employee Stock Options (H) (Note 6) – All Consolidated Entities (Note 8)	Restricted stock for employees (Note 10) – HTC	Restricted stock for employees (Note 10) – All Consolidated Entities (Note 8)	Total Compensation (A+B+C+D+E+F+G) as a percentage of net income (%) (Note 7) – HTC	Total Compensation (A+B+C+D+E+F+G) as a percentage of net income (%) (Note 7) – All Consolidated Entities (Note 8)	Compensation paid to Directors from non-subsidiary affiliates (Note 9)
Chairman	Cher Wang																									
Director	HT Cho																									
Director	Wen-Chi Chen																									
Director	Tan Ho-Chen	31,722	31,722	0	0	0	0	0	0	0.19%	0.18%	0	0	0	0	0	0	0	0	0	0	0	0	0.19%	0.18%	None
Director	David Bruce Yoffie																									
Independent Director	Chen-Kuo Lin																									
Independent Director	Josef Felder																									

Note 1: Directors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)

Note 2: The amount proposed for distribution to Directors as compensation, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year's earnings distribution proposal.

Note 3: Expenses relating to business execution by directors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).

Note 4: All salary, allowances, severance pay, various bonuses, cash rewards, transportation allowances, special allowances, various material benefits, accommodations, and personal cars received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers and employees) in the preceding fiscal year.

Note 5: Planned amount of employee bonuses approved for distribution by the Board of Directors prior to the Shareholders' Meeting for the current year's earnings distribution proposal when Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) received employee bonuses (including stock and cash bonuses) in the most recent fiscal year. If the amount cannot be estimated, employee bonus for this year will be calculated based on last year's actual distribution ratio.

Note 6: Number of shares represented by employee stock warrants (not including the portion already exercised) received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) up to the date of printing of this annual report.

Note 7: The 2012 net income NT$ 16,780,968 thousand.(Financial Statements), NT$17,589,186(Consolidated Financial Statements).

Note 8: Total amount of all remunerations paid to Directors by all consolidated entities (including HTC).

Note 9: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by Directors in their capacity as Director, Supervisor, or managerial officer of a non-subsidiary affiliate.

Note 10: Number of shares represented by Restricted stock for employees acquired by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) up to the date of printing of this annual report up to the date of printing of this annual report.

＊Compensation information disclosed in this statement differs from the concept of income under the Income Tax Act. This statement is intended to provide information disclosure and not tax-related information.

Remuneration paid to Directors

Scale of remunerations to Directors of the Company	Name: Total Remuneration (A+B+C+D) – HTC	Total Remuneration (A+B+C+D) – All Consolidated Entities	Total Remuneration(A+B+C+D+E+F+G) – HTC	Total Remuneration(A+B+C+D+E+F+G) – All Consolidated Entities
Under NT$ 2,000,000	Cher Wang, Wen-Chi Chen	Cher Wang, Wen-Chi Chen	Cher Wang, Wen-Chi Chen	Cher Wang, Wen-Chi Chen
NT$ 2,000,000～NT$ 4,999,999	HT Cho, Tan Ho-Chen, Chen-Kuo Lin	HT Cho, Tan Ho-Chen, Chen-Kuo Lin	HT Cho, Tan Ho-Chen, Chen-Kuo Lin	HT Cho, Tan Ho-Chen, Chen-Kuo Lin
NT$ 5,000,000～NT$ 9,999,999	Josef Felder	Josef Felder	Josef Felder	Josef Felder
NT$ 10,000,000～NT$ 14,999,999	David Bruce Yoffie	David Bruce Yoffie	David Bruce Yoffie	David Bruce Yoffie
NT$ 15,000,000～NT$ 29,999,999	-	-	-	-
NT$ 30,000,000～NT$ 49,999,999	-	-	-	-
NT$ 50,000,000～NT$ 99,999,999	-	-	-	-
Over NT$ 100,000,000	-	-	-	-
Total	7	7	7	7

4 CORPORATE GOVERNANCE

(2) Remuneration paid to Supervisors

2012；Unit：NT$ thousands

Title	Name	Remuneration paid to Supervisors						Total Remuneration (A+B+C) as a percentage of net income (%) (Note 4)		Compensation paid to Supervisors from non-subsidiary affiliates (Note 6)
		Salary (A) (Note 1)		Compensation from profit sharing (B) (Note 2)		Allowance (C) (Note 3)				
		HTC	All Consolidated Entities (Note 5)	HTC	All Consolidated Entities (Note 5)	HTC	All Consolidated Entities (Note 5)	HTC	All Consolidated Entities (Note 5)	
Supervisor	Huang-Chieh Chu	3,694	3,694	0	0	0	0	0.02%	0.02%	None
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee									
Supervisor (Note 7)	Caleb Ou-Yang									

Note 1: Supervisors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)

Note 2: The amount proposed for distribution to Supervisors as compensation, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year's earnings distribution proposal.

Note 3: Expenses relating to business execution by Supervisors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).

Note 4: The 2012 net income NT$ 16,780,968 thousand.(Financial Statements), NT$17,589,186(Consolidated Financial Statements).

Note 5: The total amount of all remunerations paid to Supervisors by all consolidated entities (including HTC).

Note 6: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by Supervisors in their capacity as Director, Supervisor, or managerial officer of a non-subsidiary affiliate.

Note 7: Caleb Ou-Yang resigned on 7 May 2012.

*Compensation information disclosed in this statement differs from the concept of income under the Income Tax Act. This statement is intended to provide information disclosure and not tax-related information.

Remuneration paid to Supervisors

Scale of remunerations to Supervisors of the Company	Name	
	Total Remuneration (A+B+C)	
	HTC	All Consolidated Entities
Under NT$ 2,000,000	Huang-Chieh Chu, Way-Chih Investment Co., Ltd., Caleb Ou-Yang	Huang-Chieh Chu, Way-Chih Investment Co., Ltd., Caleb Ou-Yang
NT$ 2,000,000～NT$ 4,999,999	-	-
NT$ 5,000,000～NT$ 9,999,999	-	-
NT$ 10,000,000～NT$ 14,999,999	-	-
NT$ 15,000,000～NT$ 29,999,999	-	-
NT$ 30,000,000～NT$ 49,999,999	-	-
NT$ 50,000,000～NT$ 99,999,999	-	-
Over NT$ 100,000,000	-	-
Total	3	3

(3) Remuneration paid to General Manager and Assistant General Managers

2012；Unit：NT$ thousands

Title	Name	Salary (A) (Note 1)		Retirement pay (B) (Note 2)		Bonus & Perquisite (C) (Note 3)		Employee profit sharing (D) (Note 4)				Total Remuneration (A+B+C+D) as a percentage of net income (%) (Note 6)		Exercisable Employee Stock Options (Note 5)		Restricted stock for employees (Note 9)		Compensation paid to President & Vice Presidents from non-subsidiary affiliates (Note 8)
								HTC		All Consolidated Entities (Note 7)								
		HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	Cash	Stock	Cash	Stock	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	
Chief Executive Officer & President	Peter Chou																	
President of Engineering and Operations	Fred Liu																	
Chief Financial Officer (Note a)	Chialin Chang																	
Chief Engineering Officer	David Chen																	
Senior Vice President and Head of Design (Note b)	Scott Croyle																	
Chief Operating Officer	Matthew Costello																	
General Counsel	Grace Lei																	
Vice President, Talent Management (Note c)	Crystal Liu																	
President of Global Sales Strategy	Jason Mackenzie																	
President of North America (Note d)	Mike Woodward																	
President of North Asia	Jack Tong																	
Head of HTC Communication, China	Ray Yam																	
Vice President, Studio Engineering	Simon Lin																	
Vice President, Hardware Engineering	WH Liu																	
Vice President, Wireless Software	Simon Hsieh																	
Vice President, MFG Operation	CS Wang																	
Vice President, Component Engineering & Quality Assurance	Georges Boulloy	87,780.17	167,679.88	1,628.53	2,993.48	Estimated number 44,185.63	Estimated number 136,847.6	Estimated number 353,000.22	0	Estimated number 353,000.22	0	2.90%	3.76%	0	0	0	0	None
Associate Vice President, MASD	Steve Wang																	
Associate Vice President, Studio	Thomas Chien																	
Associate Vice President, Finance & Accounting	James Chen																	
Associate Vice President, Finance & Accounting	Edward Wang																	
Chief Product Officer (Note e)	Kouji A. Kodera																	
President of South Asia (Note f)	Lennard Hoornik																	
President of EMEA Region (Note g)	Florian Seiche																	
Vice President (Note h)	Gregory Fisher																	
Chief Marketing Officer (Note i)	John Wang																	
Vice President(Note j)	Lotus Chen																	
Associate Vice President (Note k)	Jim Lin																	
Chief Financial Officer (Note l)	Winston Yung																	
Chief Information Officer (Note m)	Eric Chou																	
Chief Strategy Officer (Note n)	Ronald Allen Louks																	

Note 1: General Manager and Assistant General Managers' compensations in the most recent fiscal year include salary, allowances, and severance pay.
Note 2: Pensions funded according to applicable law.
Note 3: Various awards, bonuses, transportation allowances, special allowances, special subsidies, accommodations, and personal cars by General Manager and Assistant General Managers in the most recent fiscal year. The appropriated employee incentive and retention bonuses are estimated amount.
Note 4: The amount proposed to distribution to General Manager and Assistant General Managers as employee bonus (including stock and cash bonuses). The 2012 employee cash bonuses distribution is estimated amount.
Note 5: Number of shares represented by employee stock warrants (not including the portion already exercised) received by General Manager and Assistant General Managers up to the date of printing of this annual report.
Note 6: The 2012 net income NT$ 16,780,968 thousand.(Financial Statements), NT$17,589,186(Consolidated Financial Statements).
Note 7: Total amount of all remunerations paid to General Manager and Assistant General Managers by all consolidated entities (including HTC).
Note 8: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by General Manager and Assistant General Managers in their capacity as director, supervisor, or managerial officer of a non-subsidiary affiliate.
Note9: Number of shares represented by Restricted stock for employees acquired by General Manager and Assistant General Managers up to the date of printing of this annual report up to the date of printing of this annual report.
Note 10: This chart lists persons who have served as HTC's General Manager and Assistant General Managers in fiscal 2012, or who was served as HTC's General Manager or Assistant General Managers by 31 December 2012.

Note a: Chialin Chang was appointed as insider manager on 16 April 2012.
Note b: Scott Croyle was appointed as insider manager on 26 October 2012.
Note c: Crystal Liu was appointed as insider manager on 24 April 2012.
Note d: Mike Woodward was appointed as insider manager on 26 October 2012.
Note e: Kouji A. Kodera resigned on 11 May 2013.
Note f: Lennard Hoornik was appointed as insider manager on 26 October 2012 and resigned on 1 May 2013.
Note g: Florian Seiche resigned on 1 May 2013.
Note h: Gregory Fisher resigned on 19 January 2013.
Note i: John Wang resigned on 1 December 2012.
Note j: Lotus Chen resigned on 26 October 2012.
Note k: Jim Lin resigned on 30 June 2012.
Note l: Winston Yung resigned on 16 April 2012.
Note m: Eric Chou resigned on 16 March 2012.
Note n: Ronald Allen Louks resigned on 14 February 2012.

*Compensation information disclosed in this statement differs from the concept of income under the Income Tax Act. This statement is intended to provide information disclosure and not tax-related information.

Remuneration paid to General Manager and Assistant General Managers

Scale of remunerations to managers of the Company	Name	
	HTC (Note)	All Consolidated Entities (Note)
Under NT$ 2,000,000	Eric Chou	Eric Chou
NT$ 2,000,000～NT$ 4,999,999	Winston Yung, John Wang, Lotus Chen	Winston Yung, John Wang, Lotus Chen, Ronald Allen Louks
NT$ 5,000,000～NT$ 9,999,999	Jim Lin	Jim Lin, Gregory Fisher, Kouji A. Kodera
NT$ 10,000,000～NT$ 14,999,999	Edward Wang, Crystal Liu, James Chen	Edward Wang, Crystal Liu, James Chen, Lennard Hoornik
NT$ 15,000,000～NT$ 29,999,999	Grace Lei, Simon Lin, CS Wang, Steve Wang, Thomas Chien, Matthew Costello, Georges Boulloy, Jack Tong, WH Liu, Simon Hsieh	Grace Lei, Simon Lin, CS Wang, Steve Wang, Thomas Chien, Matthew Costello, Georges Boulloy, Jack Tong, WH Liu, Simon Hsieh, Scott Croyle, Ray Yam, Mike Woodward, Florian Seiche
NT$ 30,000,000～NT$ 49,999,999	Fred Liu, David Chen, Chialin Chang	Fred Liu, David Chen, Chialin Chang, Jason Mackenzie
NT$ 50,000,000～NT$ 99,999,999	Peter Chou	Peter Chou
Over NT$ 100,000,000		
Total	22	31

Note: The 2012 employee cash bonuses distribution and the appropriated employee incentive and retention bonuses are estimated amount. The chart lists persons who have served as HTC's General Manager and Assistant General Managers in fiscal 2012, or who was served as HTC's General Manager or Assistant General Managers by 31 December 2012.

(4) Employee profit sharing granted to Management Team

2012；Unit：NT$ thousands

	Title	Name	Stock (Note 1)	Cash (Note 1)	Total Employee Profit Sharing (Note 1)	Total Employee Profit Sharing Paid to Management Team as a percentage of net income (%) (Note 3)
Manager	Chief Executive Officer & President	Peter Chou	0	Estimated number 353,000.22	Estimated number 353,000.22	2.10%
	President of Engineering and Operations	Fred Liu				
	Chief Financial Officer (Note 4)	Chialin Chang				
	Chief Engineering Officer	David Chen				
	Senior Vice President and Head of Design (Note 5)	Scott Croyle				
	Chief Operating Officer	Matthew Costello				
	General Counsel	Grace Lei				
	Vice President, Talent Management (Note 6)	Crystal Liu				
	President of Global Sales Strategy	Jason Mackenzie				
	President of North America (Note 7)	Mike Woodward				
	President of North Asia	Jack Tong				
	Head of HTC Communication, China	Ray Yam				
	Vice President, Studio Engineering	Simon Lin				
	Vice President, Hardware Engineering	WH Liu				
	Vice President, Wireless Software	Simon Hsieh				
	Vice President, MFG Operation	CS Wang				
	Vice President, Component Engineering & Quality Assurance	Georges Boulloy				
	Associate Vice President, MASD	Steve Wang				
	Associate Vice President, Studio	Thomas Chien				
	Associate Vice President, Finance & Accounting	James Chen				
	Associate Vice President, Finance & Accounting	Edward Wang				

Note 1: Planned amount of employee bonuses (including stock and cash bonuses) approved for distribution by the Board of Directors prior to the Shareholders' Meeting for the current year's earnings distribution proposal. The 2012 employee cash bonuses distribution is estimated amount. The managers named on the list or projected distribution to managers are those who have served as HTC's Managers before 31 December 2012 and were currently employed as the date of publication of the Annual Report.

Note 2: Applicable scope of Officers is made in accordance with 27 March 2003 No. 0920001301 Regulation as follows:
(1) Chief Executive Officer or equivalent
(2) Vice President or equivalent
(3) Associated Vice President or equivalent
(4) Director of Finance Department
(5) Director of Accounting Department
(6) Other Director(s) within Company with signature authority

Note 3: The 2012 net income NT$ 16,780,968 thousand.

Note 4: Chialin Chang was appointed as insider manager on 16 April 2012.

Note 5: Scott Croyle was appointed as insider manager on 26 October 2012.

Note 6: Crystal Liu was appointed as insider manager on 24April 2012.

Note 7: Mike Woodward was appointed as insider manager on 26 October 2012.

4. Total remuneration as a percentage of net income as paid by the company, and by each other company included in the consolidated financial statements, during the past two fiscal years to its Directors, Supervisors, the General Manager, and Assistant General Managers, and description of remuneration policies, standards, packages, procedures for setting remuneration, and linkage to performance.

(1) Total remuneration as a percentage of net income as paid by the company, during the past two fiscal years to its Directors, Supervisors, General Manager, and Assistant General Managers.

Title	Total remuneration as a percentage of net income				Increases or decreases %	
	2012		2011			
	HTC	All Consolidated Entities	HTC	All Consolidated Entities	HTC	All Consolidated Entities
Directors	0.19%	0.18%	0.04%	0.04%	0.15%	0.14%
Supervisors	0.022%	0.021%	0.006%	0.006%	0.016%	0.015%
President and Vice Presidents	2.90% (Note)	3.76% (Note)	1.33%	1.88%	1.57%	1.88%

Note: The 2012 employee cash bonuses distribution and the appropriated employee incentive and retention bonuses of the 2012 total remuneration are estimated amount.

(2) HTC's reward programs and policies are designed to support HTC's business strategy and the focus of performance differentiation. Our reward program and package is designed to be competitive within the markets to engage and motivate our people for the long term successes. In additional to country's fix bonuses (two-month salary in Taiwan for example), the Board of Directors hold the review and approval for extra performance bonus by reflect the company's performance when applicable.

4 CORPORATE GOVERNANCE

2. The State of the Company's Implementation of Corporate Governance:

1. The State of Operations of The Board of Directors:

The Board of Directors conducted Nine (A) meetings in 2012. The Directors and Supervisors' attendance status is as follows :

Title	Name	Addendance in Person (B)	By Proxy	Attendance Rate in Person(%) [B/A]	Notes
Chairman	Cher Wang	9	0	100%	
Director	Wen-Chi Chen	7	2	77.78%	
Director	HT Cho	9	0	100%	
Director	Tan Ho-Chen	9	0	100%	
Director	David Bruce Yoffie	3	6	33.33%	
Independent Director	Chen-Kuo Lin	9	0	100%	
Independent Director	Josef Felder	4	5	44.44%	
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	8	0	88.89%	
Supervisor	Huang-ChiehChu	9	0	100%	
Supervisor	Caleb Ou-Yang	0	0	0%	Caleb Ou-Yang left office on 2012.05.07.

Other matters to be included:

1. There was no independent director expressing opposition or reservation with respect to any Board of Directors meeting during the preceding fiscal year, and no written record or written statement of related board resolutions.

2. There was no Directors' abstention from discussion due to conflicts of interests in 2012.

3. Measures taken to strengthen the functionality of the Board of Directors and the status of implementation during current and preceding fiscal years:

(1) At the time of end-of-term elections for Directors and Supervisors in the 2010 fiscal year, HTC selected two Independent Directors in accordance with the provisions of the Securities and Exchange Act in order to strengthen the independence and functions of Directors and enhance the operational effectiveness of the Board. In 2008, the "Guidelines for Corporate Governance" were completed and adopted, guaranteeing that the Board of Directors has the authority to independently supervise corporate operations and to make all decisions necessary to fulfill its responsibilities to shareholders and to society.

(2) In compliance with the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or traded over the counter as per Letter No. 1000009747 issued by the Executive Yuan Financial Supervisory Commission on March 18, 2011, the Company formulated the Compensation Committee Charter and under which appointing Independent Director Mr. Chen-Kuo Lin; Director Mr. HT Cho and independent professional advisor Mr. Harvey Chang to the Compensation Committee. The official functions of the Committee are to professionally and objectively evaluate the policies and systems for the compensation of HTC directors, supervisors, and managers, and submit recommendations to the board of directors for its reference in decision making.

(3) Currently, prior to the establishment of the audit committee, some of the committee's functions are performed by the Supervisors meetings. Regular Supervisors meetings are convened on a quarterly basis to hear reports on important financial, legal, and internal audit matters. There is also a joint assessment between the Supervisors and CPA on the principles and appropriateness of various allowances and reserves in the financial statements.

(4) HTC has also been endeavoring in recent years to enhance the timeliness and transparency of its information disclosure. In addition to making timely posting of important financial and business information on the Market Observation Post System, HTC also convenes online investor conferences on a quarterly basis to allow investors timely access to information on the company's operations and performance. In December 2008, the HTC Investor Relations Website was revised. A special corporate governance page was added along with disclosures of financial information. HTC achieved "A+" rating for the first time in the sixth Information Disclosure and Transparency Ranking organized by the Securities and Futures Institue (SFI) and achieved "A+" rating for three consecutive years. HTC was recognized as one of the top 10 public companies with "A+" ratings in the seventh evaluation and A++ ratings in the ninth evaluation.

2. Supervisor participation in Board of Directors meetings

The Board of Directors conducted nine (A) meetings in 2012. The Supervisors' attendance status is as follows :

Title	Name	Addendance in Person (B)	Attendance Rate (%) [B/A]	Notes
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	8	88.89%	
Supervisor	Huang-ChiehChu	9	100%	
Supervisor	Caleb Ou-Yang	0	0%	Caleb Ou-Yang left office on 2012.05.07.

Other matters to be included:

1. Composition and Responsibilities of Supervisors:
The structure of the Supervisors' Meetings at HTC is well established and it carries out some functions at the audit committee.

(1) Supervisor communication with employees and shareholders (e.g., channels and methods of communication)
Supervisors can make use of channels such as Supervisors Meetings, Board of Directors meetings, Shareholders Meetings, and internal audit reports to communicate with management-level officers and with shareholders.

(2) Supervisor communication with Chief Internal Auditor and CPAs (e.g., financial and operational matters on which they communicate, their methods, and results)
HTC Supervisors communicate through their regular quarterly Supervisor Meetings with HTC's financial, legal, and internal audit officers, who report to the Supervisors on issues such as risk management, major litigations, and internal audit reports.
Based on the principle of sound, conservative accounting, HTC's Supervisors and CPAs regularly undertake joint reviews of major account items in the financial statements to assess the reasonableness of basic assumptions underlying various allowances and reserves. Assessments are also performed and reserves taken against potential liabilities associated with intellectual property risks in order to reduce the impact on HTC's finances.
Supervisors also hold regular private meetings with CPAs. Supervisors must first review and be satisfied with the CPA's independence and professional fees before such matters are submitted to the Board of Directors for resolution.
In 2012, the management team continuously emphasized and provided full support on corporate governance. Headquarters actively reviewed and enhanced the processes of supervision and management of subsidiaries, and developed global policies and procedures. All departments in the company conducted risk-oriented internal control assessment to evaluate the controls' efficiency and effectiveness, for the purpose of improving the internal control system. In the area of internal control self-assessment, HTC has asked all departments to evaluate the efficiency and effectiveness of their controls' design and execution to ensure the concreteness and transparency of the internal control statement. All departments were required to issue individual internal control statements based on their evaluation results and the company would issue the internal control statement based on individual department evaluation results.

2. If Supervisors in attendance at a Board meeting state opinions, the meeting date, session number, agenda, and result of resolutions must be noted, along with the company's handling of the Supervisors' opinions.
There has been no instance of a Supervisor expressing a dissenting opinion regarding a Board resolution during the most recent fiscal year.

4 CORPORATE GOVERNANCE

3. The State of the Company's Implementation of Corporate Governance, departures of such implementation from The Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies, and reasons for departures.

Item	Implementation Status	Reason for Non-implementation
1. Shareholding structure & Shareholders' Rights		
(1) Method of handling shareholder suggestions or complaints	• To protect shareholders' interests, HTC has appointed spokesperson and acting spokesperson to properly handle any questions, suggestions, or disputes involving shareholders.	None
(2) The Company's understanding of major shareholders and the ultimate owners of these major shareholders	• The Company has a good understanding of its major shareholders through shareholder registers provided by stock agents at book closures. HTC also provides information regularly on pledges and the increase and decrease in shareholdings of shareholders with a more than 10% stake in the company.	None
(3) Risk management mechanism and "firewalls" between the Company and its affiliates	• The division of responsibilities between HTC and its affiliates with respect to management of personnel, resources, and finances is clear. Risk assessments are rigorously performed and appropriate firewalls have been established. HTC conducts business with affiliates based on the principles of fairness and reasonableness and fully observe the operating Procedures for transactions with Specific Companies, Enterprise Groups and Related Parties and other related regulations. Terms and conditions, pricing, and payment methods are clearly prescribed in contracts to avoid non-arms-length transactions and financial tunneling. When it is necessary to eliminate non-competition restrictions on directors and managerial officers, requests are duly submitted to the Shareholders' Meeting and Board for approval.	None
2. Composition and Responsibilities of the Board of Directors		
(1) Independent Directors	• At the end-of-term elections for Directors and Supervisors at the 2010 ordinary Shareholders' Meeting, HTC elected two Independent Directors in accordance with the provisions of the Securities and Exchange Act; the number of Independent Directors exceeds one-fifth of the total number of Directors.	None
(2) Regular evaluation of external auditors' independence	• In 2008, HTC started to have its Supervisors review the independence of CPAs on an annual basis. Prior to submitting a proposal to change CPA to the Board, the CPA will be interviewed and his credentials reviewed by the Supervisors to assess his independence.	None
3. Communication with stakeholders	• HTC provides detailed contact information, including telephone numbers and email addresses, in the "contact us" section of its corporate website. We also have personnel in place to exclusively deal with messages to the spokesperson and investor mailboxes so that various interested parties will have channels to communicate with HTC.	None
4. Information Disclosure		
(1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance	• HTC has both Chinese and English websites. Investor information pages provide information on financial and business issues and corporate governance, while product information pages provide information relating to our products and services.	None
(2) Other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)	• HTC has English and Chinese investor relations websites. Dedicated personnel have been assigned to collect and update information to websites. Chief Financial Officer Chialin Chang has been appointed spokesperson and a spokesperson email address has been established. An investors conference is convened online each quarter. Recording and presentation are posted on the company website after the conference.	None
5. Operation of the Company's Nomination Committee, or other functional committees of the Board of Directors	• In compliance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or Traded Over-the-Counter" as per Letter No.1000009747 issued by the Financial Supervisory Commission of the Executive Yuan on March 18, 2011, the Board of Directors resolved to adopt the Company's Compensation Committee Charter and appoint Independent Director Mr. Chen-Kuo Lin; Director Mr. HT Cho and independent professional advisor Mr. Harvey Chang to the Company's Compensation Committee on December 22, 2011.	None
6. In 2008, HTC adopted the "Guidelines for Corporate Governance". Its provisions are based on the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies, and were drafted with reference to the corporate governance practices of companies in Taiwan and abroad with outstanding records in that area. Its purpose is to ensure that the Board has the authority to independently supervise corporate operations and to make all decisions necessary to fulfill its responsibilities to shareholders and society.		
7. Other important information helpful to understanding HTC's corporate governance practices: (1) Employee rights and interests and employee care • HTC's employee code of conduct provides rules and guidelines for employees to follow when involved in company operations. All employees of the company and its branches and subsidiaries, regardless of their position, level, or location, need to abide by this code of conduct. Any unlawful conduct, either at the company or otherwise is prohibited. • HTC is committed to providing a safe and healthy work environment, to respecting individuals and offering fair equality of opportunity, and to protecting company assets and personal information. • In Relations with Customers and Suppliers, HTC commits to maintaining long-term relationships on a fair and reasonable basis in order to create win-win partner relationships. In the Conflicts of Interest section, HTC provides principles of conduct to guide employees. • HTC's hiring policies comply with the relevant laws and regulations and provide fair opportunities to applicants. Hiring decisions are based on HTC's operational needs, nature of the work, and applicants' abilities. Fair opportunities are provided to both applicants and employees. There will be absolutely no discrimination on the basis of nonwork-related factors, such as race, skin color, social position, language, belief, religion, political attillation, family origin, gender, sexual orientation, marital status, appearance, facial features, mental or physical disabilities, previous union affiliation, or any other factor protected by government order. • HTC management adheres firmly to the principles of respect for the individual, good faith, and responsibility. These principles are applied (but not limited) to recruitment, hiring, training, promotion, pay scales, benefits, transfers, and community activities. • HTC is committed to providing employees with a working environment free of discrimination or harassment (including sexual harassment). Any form of speech or conduct intended to incite hatred, conduct which could lead to accidental injury, or discrimination, will be immediately reported to the responsible department for investigation and punishment. • In addition to complying with legal requirements, HTC respects the privacy of its employees and protects their personal information, and never arbitrarily discloses personal data of employees. Employees are also expected to abide by this principle in their interactions, and to avoid discussing private matters or secret information of others (including but not limited to salary and bonus information).		

(Continued)

(2) Investor relations

- HTC carries out its responsibility in the area of investor relations by endeavoring to enhance the transparency and timeliness of information disclosure. In addition to immediate announcement of material information and information disclosure, each quarter investor/press conferences are held, with an average of more than 100 institutional investors from Taiwan and abroad participating. Information is also uploaded to the company website simultaneously.
- In addition to the regularly scheduled information disclosures above, HTC also actively participates in investment seminars held by local and overseas securities firms and investor/press conferences; it also arranges meetings with domestic and foreign investors in order to further explain financial figures and operational results that have already been publicly released. Also, more than ten international securities houses routinely publish analyst reports on HTC, providing investors with independent, professional investment analyses.
- HTC's investor relations activities in 2012, were as follows: Throughout the year, HTC frequently participated in investor conferences in Taiwan, Hong Kong, Singapore, New York, and Beijing, and periodically visited main investors in the European, American and Asia regions. At the same time, foreign and domestic institutional investors and analysts frequently visit our investor relations department or contact it by phone. Going forward, HTC will continue to advance its work in every aspect of investor relations in order to fulfill the responsibilities of a listed company toward its investors and shareholders.

(3) Supplier relations and rights of interested parties

- HTC has adopted Procedures for Transactions with Specific Companies, Group Enterprises, and Related Parties to guarantee the rights and interests of HTC and interested parties. Purchasing contracts are also signed with suppliers to govern to transactions and cooperative efforts to protect the lawful rights and interests of all parties.

(4) Professional development of Directors, Supervisors, and managerial officers:

- HTC Directors and Supervisors voluntarily attend seminars held by professional training institutes as required by law and regulation. In addition, to further strengthen implementation of corporate governance, regular courses are also planned on finance, business, commerce, law, and accounting subjects that are related to corporate governance, as well as courses on internal control and responsibility in connection with preparation of financial reports. Details of professional development courses taken by Directors, Supervisors, and managerial officers for 2012 can be found in Appendixes 1 and 2.

(5) Status of implementation of risk management policies and standards for measurement of risk:

- HTC has adopted relevant risk management policies and standards for measurement of risk, and has established a dedicated unit to carry out risk management and risk measurement. With respect to implementation, HTC has reassessed its business risks after transitioning into a brand company. Risk factors are also reflected in financial statement items such as bad debts and warranty reserves which are reviewed by Supersivors and CPAs to ensure they are reasonable and appropriate.
- HTC's management of potential risk associated with promotion of its global brand is explained below:
  1. Exchange rate risk: Foreign exchange movements are monitored and managed / hedged by dedicated personnel. Reserves for on-book liabilities are valued at the exchange rate on the balance sheet date, reducing as much as possible the effects of currency fluctuations on HTC's business and finances.
  2. Receivables risk: Receivables risk is managed effectively by the finance department to ensure receivables quality and lower the risk of bad debt.
  3. Management of idle inventory: In addition to enhancing supplier management and demand forecast, idle inventory is attended to early and reserves for loss taken in an appropriate manner.
  4. Global tax risk:To comply with global tax compliance, our company engaged with international tax advisory for periodical review.
  5. Product design quality: To ensure quality of design, HTC has established a department for design quality, which is exclusively responsible for control and management of quality in hardware and software, product safety, and conformance with environmental regulations around the world. The department provides a complete range of product testing and certification.

(6) Status of customer-protection policy implementation:

- HTC strictly abides by the contracts it signs with customers to protect consumer rights and interests. Regular deliberation on and assessment of the Product Warranty Reserve for after-sales services ensures that allocations made to such reserves are reasonably sufficient and warranty responsibilities of the Company are adequately expressed.

(7) Liability insurance provided by HTC to Directors and Supervisors:

- Article 16 of the amended Articles of Incorporation provides that the company may acquire liability insurance for all Directors and Supervisors throughout their term, within the scope of the indemnity liability they bear under the law in connection with their business responsibilities. Currently, HTC has purchased Liability Insurance for Directors, Supervisors, and key personnel (please see Appendix 3 for details),thereby transferring the risk arising from negligence or erroneous or improper conduct by Directors, Supervisors, or key personnel and enhancing the soundness of company management.

(Continued)

8. If the Company has a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows:
   - As of 2012, HTC has not yet issued any corporate governance self-assessment report or engaged any other professional institute to perform a corporate governance assessment. It has become a member of the ROC's Corporate Governance Association (CGA). Regular participation of its Directors, Supervisors, and management-level personnel in the CGA's Directors and Supervisors Association provides opportunities for exchanges with government, business, and academia on topics such as enterprise orientation, strategy development, operations and management, and financial,legal, and corporate governance issues, thereby strengthening HTC's enterprise management and corporate governance.

(Concluded)

Appendix 1: Continuous Education/Training of Directors and Supervisors

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Director	Tan Ho-Chen	2012.08.28	2012.08.28	Taiwan Corporate Governance Association (TCGA)	Mastering Key Aspects of the Laws and Negotiations Applicable to International Commercial Agreements and Points to Consider Before Execution	3	
Independent Director	Chen-Kuo Lin	2012.12.13	2012.12.13	Taiwan Corporate Governance Association (TCGA)	Impact of Recent Changes in Regulation to the Responsibilities of Directors and Supervisors	3	

Appendix 2: Continuous Education/Training of Management Team

Title	Name	Date of Training	Organization	Training	Hours	Notes
Associate Vice President, Finance & Accounting	James Chen	2012.05.17	Accounting Research and Development Foundation	Latest International Multilateral Trade Accounting, Taxation and Customs Practices	6	
Associate Vice President, Finance & Accounting	James Chen	2012.11.09	Accounting Research and Development Foundation	Relationship by Appointment and Respective Legal Responsibilities of Companies and Accountants with Case Study and Discussion	3	

Appendix 3: Directors, Supervisors and Key Personnel Liability Insurance

No	Insured Object	Insurance Company	Insured Amount (NT$)	Insurance period	Notes
1	All Directors and Supervisors	Fubon Insurance Co., Ltd. (Insureds include HTC-appointed juristic person directors' representatives at investee companies and key personnel)	1,019,515,000	From：2011.03.15 To：2012.03.15	Insured Amount US$: 35,000,000
2	All Directors and Supervisors	Fubon Insurance Co., Ltd. (Insureds include HTC-appointed juristic person directors' representatives at investee companies and key personnel)	1,019,515,000	From：2012.03.15 To：2013.03.15	Insured Amount US$: 35,000,000

4. Formation, scope of duties and operation of the Compensation Committee

(1) Compensation Committee members' Information

Conditions / Name	Meet one of the following professional qualification requirements, together with at least five years work experience			Conforms to criteria for independence (note 1)								Number of other public companies concurrently serving as an Compensation Committee member	Note
	An instructor (or higher) in a department of commerce, law, finance, accounting, or other academic departments related to the business of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in commerce, law, finance, accounting, or other areas relevant to the business of the company	1	2	3	4	5	6	7	8		
Independent Director Chen-Kuo Lin	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Director HT Cho			✓	✓		✓	✓	✓		✓	✓	1	Note 2
Other, Harvey Chang			✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Note 1: Compensation Committee members, during the two years before being elected or during the term of office, meet any of the following criteria:

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent Company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, children of minor age, or held by the person under others' names, in an aggregate amount of 10% or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings.

(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified Company or institution that has a financial or business relationship with the Company.

(7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, Company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.

(8) Not been a person of any conditions defined in Article 30 of the Company Law.

Note 2: For within 3 years counting from the date the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter enter into force, the applicability of the Article 6, provision of paragraph 1, subparagraph 2 regarding company directors may be exempted for no more than one-third of the compensation committee members, and such a director may be exempted from the application of Article 6 paragraph 1, subparagraphs 1 and 5 to 7. Director HT Cho did not serve as convener or Chairman of the Compensation Committee.

(2) The State of Operations of The Compensation Committee

1. Numbers of the Compensation Committee members: 3 persons.
2. Terms of Office of Committee Members: from 22 December 2011 to 17 June 2013. The Compensation Committee conducted Four (A) meetings in 2012.

Title	Name	Addendance in Person (B)	By Proxy	Attendance Rate in Person(%) [B/A]	Notes
Convener	Chen-Kuo Lin	4	0	100%	
Member	HT Cho	4	0	100%	
Member	Harvey Chang	4	0	100%	

Other matters to be included:

1. There was no suggestion recommended by the Compensation Committee not being accepted or being amended by the Board of Directors during the preceding fiscal year.
2. There was no Compensation Committee member expressing opposition or reservation with respect to any Compensation Committee meeting during the preceding fiscal year, and no written record or written statement of related resolutions.

5. HTC's exercise of corporate social responsibility:

Item	Implementation Status	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies
1. Exercising corporate governance		
(1) The company's adoption of corporate social responsibility policies and systems, and its examination of the effectiveness of their implementation.	HTC provides an overview of its corporate social responsibility (hereinafter CSR) commitment on its corporate Website: http://www.htc.com/www/about/corporate-responsibility/ The content outlines HTC's supplier code of conduct, Environment, Health and safety policy, Greenhouse Gas Emission reduction and energy saving. Performance is evaluated through management review.	None
(2) The operational status of the unit established by the company with exclusive or concurrent responsibility for CSR matters.	The CSR department is responsible for the planning and implementation of HTC's CSR activities, and attends Electronic Industry Citizenship Coalition (EICC) meetings on behalf of HTC.	None
(3) The holding of business ethics training sessions and provision of guidance on related matters on a regular basis for directors, supervisors and employees, and the incorporation of business ethics into its employee performance appraisal system to establish a clear and effective reward and discipline system.	HTC conducts annual training with regard to company policy, employee code of conduct, Environment, Health and Safety training and CSR training.	None
2. Developing a sustainable environment		
(1) The status of the company's efforts to improve its efficiency in the utilization of all resources and the use of recycled materials with low environmental impact.	In 2006, HTC set up a green supply chain management platform that provided R&D engineers the necessary product information database in order to choose eco-friendly materials that meet international laws, regulations, as well as customer requirements. Through this process, we have enhanced product reliability and created more efficiency around certification procedures. There are two major package materials currently in use for all HTC products: Corrugated: 85-90% recycled pulp in corrugated board, which is 100% recyclable. Renewable: 65% Bagasse pulp and 35% Bamboo pulp, which is 100% renewable and biodegradable. In the event that virgin material must be used in packaging, HTC requests vendors to obtain the Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) certification.	None

(Continued)

Item	Implementation Status	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies
(2) The status of the company's establishment of environmental management systems appropriate to the nature of its industry.	HTC is certified in: ISO14001:2004; ISO14064-1:2006. HTC implemented the ISO 50001:2011 in 2011.	None
(3) The status of the company's establishment of dedicated environmental management units or personnel to maintain the environment.	Environment, Health and Safety Department. which is under the guidance of the General affair Department. The Environment, Health and Safety Department is in charge of all affairs related to Environment, Health and Safety at HTC.	None
(4) The status of the company's attention to the effects of climate change on its operations and its establishment of a company strategy for energy conservation and carbon and greenhouse gas reduction.	Beginning in 2008, HTC has publically reported and verified its Greenhouse Gas Emissions (GHG) inventories and set GHG emissions reduction goals for all production facilities in Taiwan. In 2010, with the support of third-party agencies, HTC began publically reporting its GHG inventories for its Mainland China factories. HTC plans to work with third-party agencies such as the Carbon Disclosure Project to measure, analyze and reduce emissions for all its subsidiaries, and implement the ISO 50001 energy management standard to continue to identify and implement cost-effective energy efficiency programs across the company.	None
3. Protecting the public interest		
(1) The status of the company's observance of the relevant labor laws and regulations, protection of its employees' legal rights and interests, and establishment of appropriate management methods and procedures.	All HTC labor representatives are elected by HTC employees. HTC has a labor committee and holds regular meetings. HTC's employee code of conduct defines employees' legal rights, interests and establishes appropriate compliance measures	None
(2) The status of the company's provision of a safe and healthy work environment for its employees and its provision of health and safety education to its employees on a regular basis.	HTC implements Occupational Health and Safety Assessment 18001:2007 (OHSAS 18001:2007). We authorize qualified environment inspection agencies to conduct relevant inspections, and the results exceed legal requirements. Employees receive ongoing health and safety training as required for their jobs, and our manufacturing facilities are closely managed through proper design, engineering and administrative controls, and preventative maintenance.	None
(3) The status of the company's formulation and public release of its policies on consumer rights and interests, and its provision of transparent and effective procedures for consumer complaints regarding its products and services.	HTC safeguards consumer rights and interests with various services and information. It provides channels of communication that allow consumers to contact HTC, including: • the limited warranty sheet included in the HTC phone package • Customer service contact numbers in all countries • Customer service center contact info card in Taiwan • Include the telephone numbers and methods of connecting to its dedicated customer service lines on its official Website • Live customer chat service • Customer service e-mail • Home pickup and delivery service • Customer service center address	None

(Continued)

Item	Implementation Status	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies
(4) The status of the company's cooperation with suppliers to jointly enhance corporate social responsibility items	As a member of the Electronic Industry Citizenship Coalition (EICC), HTC is committed to embodying and promoting appropriate conduct with respect to human rights, labor and the environment. We subscribe to the EICC Code of Conduct, and require all suppliers to adhere to its principles and standards. HTC suppliers are also required to sign the HTC supplier code of conduct, which mandates responsible labor, environmental and sourcing practices. In addition, we actively manage the supplier auditing process and have a dedicated supplier audit team that travels to manufacturing suppliers' sites to ensure they are meeting local regulatory requirements and adhering to the HTC supplier code of conduct. Our sourcing policy requires that raw materials used in our products are extracted, processed and produced in a responsible manner, consistent with our environmental and ethical policies. As a condition of doing business with us, we require suppliers to adopt and enforce a sourcing policy that will ensure that the tantalum (also known as coltan), tin, tungsten and gold minerals used in their products do not come from the Democratic Republic of Congo and surrounding area. We also review our suppliers' mineral sourcing practices through our supplier audit program.	None
(5) The status of the company's participation in commercial activities, property endowments, volunteering of service or other free professional services, and participation in charitable events or events relating to community development.	We invest in our communities and charitable causes. We partner with organizations that make a difference in improving our local communities. In 2012, the HTC Social Welfare Foundation supported a range of welfare programs in local communities that included academics and education, environmental protection, culture, and volunteer services. The HTC Education Foundation jointly sponsored character education programs with domestic and foreign educational institutions. Together with the Taitung County government in Taiwan, the HTC Foundation built the Taitung Character and English Academy as part of its commitment to education.	None
4. Enhancing information disclosure.		
(1) The company's method of disclosure of relevant and reliable information relating to CSR.	HTC provides an overview of its CSR commitment on its corporate Website: http://www.htc.com/www/about/corporate-responsibility/	None
(2) The status of the company's production of corporate social responsibility reports disclosing the implementation of CSR matters.	HTC does not produce a corporate social responsibility report in 2012.	HTC does not currently publish a corporate social responsibility report.
5. If the company has formulated a set of its own corporate social responsibility best practice principles in accordance with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies, please describe any discrepancies between their operation and the principles as adopted: HTC has not adopted any of its own corporate social responsibility best practice principles		
6. Any other important information helpful to understanding the company's CSR-related operations (such as the status of its systems, measures, or performance in CSR activities relating to the environment, participation in the community, contributions to society, social service, the public interest, consumer rights and interests, human rights, health and safety, and other CSR-related activities: None.		
7. If the company's products or its corporate social responsibility report have met the standards of a relevant certification institution, please indicate: None.		

(Concluded)

6. Status of HTC's Implementation of Ethical Corporate Management Best Practices and Adoption of Related Measures:

Status of Implementation of Ethical Corporate Management Best Practices

Item	Implementation Status	Reason for Non-implementation
1. Adoption of ethical corporate management policies and programs		
(1) Status of HTC's progress in clearly adopting ethical corporate management policies in its rules and external documents, and of the board of directors and the management in undertaking to rigorously and thoroughly enforce such policies.	HTC's Code of Conduct is a guideline to provide high ethical standards for all employees in conducting HTC business activities. This Code includes three major sections: the General Moral Imperative, Vendors/Suppliers and Customers Relationship, and Conflict of Interests which covers HTC's ethical management policy. This Code is disclosed in the Annual report and on the investor website. The board of directors and the management all place the greatest importance on adopting the highest standards of integrity and ethics in corporate management and employee work conduct. Bribery, corruption, deception, and all other forms of improper conduct are prohibited.	HTC does not produce a Ethical Corporate Management Best Practice Principles per the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies. HTC adopted Code of Conduct for follow up.
(2) Status of HTC's adoption of a program to prevent unethical conduct, including its operational procedures, guidelines for ethical conduct, and education and training operations.	The Code of Conduct describes Corporate Confidentiality, Protection of Property, HTC's Assets, and Personal Information, standards for entertainment and Business Courtesies among All employees or their immediately family members, customers and suppliers/Vendors, Travel, Conflict of interest, Outside Employment and Inside Trading to prevent unethical conduct. The Code of Conduct is one of the courses in the new employee orientation and is declared in the e-learning courses. HTC also adopted the Corporation Rules for Donations Out of Income as the principle to approve and process Company's donation.	None
(3) Status of HTC's efforts, when establishing the program to prevent unethical conduct, to address which business activities within its business scope pose higher risk of unethical conduct, and to adopt preventive measures against the offering and acceptance of bribes, illegal political donations, and so forth.	Per the Code of Conduct, HTC will hold new employee orientation and ask employees to review the code periodically to prevent unethical conduct.	None
2. Enforcement of ethical corporate management		
(1) Status of HTC's efforts in its business activities to avoid dealings with persons who have any record of unethical conduct, and to include ethical conduct clauses in its business contracts.	When signing purchasing or engineering contracts with suppliers, HTC consistently requires the suppliers to cooperate by signing an Integrity Policy Statement, to expressly provide that its business partners will uniformly comply with national laws and refrain from using unethical conduct to gain advantages in business or work (for example by offering kickbacks, entertainment, or other improper benefits). The signed terms and conditions expressly stipulate that HTC will voluntarily terminate its dealings with any cooperating firm that violates the Integrity Policy, which is designed to consistently maintain a relationship of integrity between HTC and its business counterpart.	None
(2) Status of HTC's establishment and operation of a dedicated (or part-time) unit with responsibility for the enforcement of ethical corporate management, and supervision by the board of directors.	HTC has not established a dedicated (or part-time) unit with responsibility for the enforcement of ethical corporate management. Currently, HTC has adopted an employee code of conduct that sets rules for compliance by all division supervisors and employees in their execution of company operations, to prevent violations of ethical corporate management principles by HTC. When violations of the employee code of conduct occur or are suspected, the human resources and legal divisions will cooperate to investigate and then report to management so that necessary disciplinary measures can be taken. Also, HTC's internal auditors conduct routine audits of the work operations and internal control system operations of HTC's various divisions, and submit quarterly reports to the board of supervisors and the board of directors.	HTC has not established a dedicated (or part-time) unit with responsibility for the enforcement of ethical corporate management.
(3) Status of HTC's adoption of policies for preventing conflicts of interest and offering appropriate channels for stating opinions, and the operation thereof.	HTC has set out high ethical standards in its employee code of conduct. Additionally, in its employment agreements and employee handbook, it expressly stipulates non-competition provisions for the period of employment, to prevent conflicts of interest. Unit supervisors and internal auditors can investigate and audit any questionable conduct in line with these policies. Also, in its Rules of Procedure for Board of Directors Meetings, it has duly set out a system for recusal and avoidance of conflicts of interest by directors, for compliance in the operations of the board of directors. HTC also has established channels for statements of opinions and reports of violations, by which employees may report any questionable conduct discovered.	None
(4) Status of HTC's establishment and operation of effective accounting systems and internal control systems for the enforcement of ethical corporate management, and of audits by internal auditors.	HTC has established an accounting system that takes into account the characteristics of its industry and is based on applicable laws and regulations and generally accepted accounting principles. The system provides a basis for compliance in HTC's accounting affairs (including the types and formats of accounting evidence, account books, accounting classifications, and financial statements, and the rules and procedures for handling various kinds of accounting matters). The system enables the regular provision of reliable accounting information for reference by the management. The implementation of the operational procedures and rules of the accounting system ensures that HTC's business operations proceed according to rigorous procedural rules, with mutual checking and reconciliation between various operations, to prevent any occurrence of abuses, ensuring the security of HTC's assets.	None

(Continued)

(Continued)

Item	Implementation Status	Reason for Non-implementation
	HTC has taken into account its overall operational activities in designing and faithfully implementing its internal control system. It regularly reviews the internal control system to ensure the continued effectiveness of its design and implementation in light of changes in HTC's internal and external environment. The internal auditors conduct scheduled or unscheduled site audits of audited units according to internal audit plans, and may require audited units to present documents, account books, and evidence to conduct document audits. When necessary, they also may conduct special audits of specific matters, and compile their work papers and related materials into reports and submit them to the board of directors.	
3. Status of HTC's establishment and operation of channels for receiving reports on unethical conduct, and disciplinary and complaint system for handling violations of the ethical corporate management rules.	HTC's employee handbook specifically provides that an employee who commits fraud, accepts bribes, misappropriates funds, or violates employment-period non-competition clauses will be sanctioned by dismissal from employment. Complaints can be channeled through HTC's internal division supervisors, human resources division, and internal auditors. Disciplinary measures are administered by the human resources department. HTC also has established channels for statements of opinions and reports of violations, by which employees may report any questionable conduct discovered.	None
4. Strengthening information disclosure		
(1) Status of HTC's website building and information disclosure related to ethical corporate management. (2) Other measures adopted by HTC for information disclosure (e.g. establishment of an English website, appointment of dedicated personnel with responsibility for collecting information, disclosing it, posting it on the HTC website, and so forth).	HTC discloses its Code of Conduct on its investor's website both in Chinese and English, the Corporate Responsibility webpage also discloses Supplier Code of Conduct. Supplier's business shall be ethical and be audited by HTC's internal audit department.	None
5. HTC does not produce a Ethical Corporate Management Best Practice Principles per the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies. HTC adopted Code of Conduct to provide high ethical standards for all employees in conducting HTC business activities. All employees of HTC Corp., including branches and subsidiary companies, must follow these ethical standards regardless of the employees' position, grade level, and location. This Code includes three major sections: the General Moral Imperative, Vendors/Suppliers and Customers Relationship, and Conflict of Interests.		
6. Other important information helpful to understanding HTC's exercise of good faith in management: HTC has always upheld the five major ideals of honesty, humble, simplicity, energy, and innovation as its highest criteria for operations. Everyone within the company, from the highest levels to the lowest, is asked to strictly uphold the spirit of these five ideals, as well as abiding by all laws, regulations, and rules. HTC has also formulated internal rules to ensure the exercise of good faith in management and the observance of laws and regulations.		

(Concluded)

7. For information on HTC's Guidelines for Corporate Governance and other codes of practice, please refer to the HTC website at www.htc.com.

8. Other important information helpful to understanding HTC's corporate governance:

Due to a number of factors, including the shift in HTC's principal business operations in recent years to own-brand manufacturing, the growing scale of its operations, and the continued expansion of overseas subsidiaries, HTC has continued to examine and revise or adopt new rules and procedures which will enhance the efficiency of its operations and strengthen risk management and corporate governance. Over the recent years, in line with the formulation or amendment of relevant securities laws and regulations, and in consideration of operational needs, HTC has adopted or revised its "Procedures for Board of Directors Meetings", "Procedures for the Acquisition or Disposal of Assets", "Procedures for the Handling of Derivatives Trading", "Guidelines for Corporate Governance", "Procedures for Shareholders' Meetings", "Bylaws for the Election of Directors and Supervisors", and "Compensation Committee Charter". In addition, it has also adopted the "Detailed Guidelines for the Handling of Derivatives Transactions", " Credit Policy and Operation Procedures", and "Rules for Assignment of Directors and Supervisors at Investee Companies", and revise implementation rules that guide its internal operations, such as the " Specific Companies, Enterprise Groups and Related Parties", "Budget Management Procedures", "Corporate Bylaws for Subsidiaries" and "Operational Procedures for Handling Material Inside Information, and Prevention of Insider Trading". Latest drafts and amendments of the "Operating Procedures for the Handling of Material Inside Information and Prevention of Insider Trading" are sent to all HTC employees via e-mail posted on the internal website. The most updated version is posted on both the corporate website and internal website. New employees are also trained on the prevention of insider trading.

9. The state of implementation of HTC's internal control system:

(1) Statement on Internal Control

HTC Corporation

Internal Control System Statement

Date: 02/19/2013

The Company states the following with regard to its internal control system for 2012, based on the findings of a self-evaluation:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguarding of asset security), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" promulgated by the Financial Supervisory Commission, Executive Yuan (hereafter, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has evaluated the design and operating effectiveness of its internal control system according to the forementioned criteria.
5. Based on the findings of the evaluation mentioned as of 12/31/2012, the Company believes that during the stated time period its internal control system (including its supervision of subsidiaries), encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This statement has been passed by the Board of Directors Meeting of the Company held on 02/19/2013, in which all of the 7 attending directors affirmed the content of this Statement.

HTC Corporation. 宏達國際電子股份有限公司 Chairman President

(2) External auditors' opinion on HTC's internal control: Not applicable.

10. For the most recent fiscal year and during the current fiscal year up to the date of printing of this annual report, there were no sanctions imposed upon the Company or its internal personnel.

11. Material Resolutions of the 2012 Shareholders Meeting and Board of Directors Meetings during the most recent fiscal year and the current fiscal year up to the date of printing of this annual report.

Item	Date	Material resolutions	Note
Year 2012			
Board of directors meeting	2012.02.14	1. Adopted resolution for the date, time and venue for the Company's 2012 Annual General Shareholders' Meeting, and the submission period and address for shareholders' proposals.	
Board of directors meeting	2012.04.16	1. Adopted resolution for change of Company's Chief Financial Officer and Spokesperson.	
Board of directors meeting	2012.04.24	1. Adopted resolution for Fiscal 2011 earnings distribution proposal. 2. Adopted resolution to amend the agenda for convening the 2012 Annual General Shareholders' Meeting of the Company.	
Shareholders meeting	2012.06.12	1. Adoption of the Fiscal 2011 Business Report and Financial Statement. 2. Adoption of the Fiscal 2011 Earnings Distribution Proposal. 3. Adopted resolution for discussion of the proposal to amend the Procedures for the Acquisition or Disposal of Assets.	Please refer to the note for an execution summary of the material resolutions of the shareholders meeting
Board of directors meeting	2012.06.18	1. Adopted resolution to adopt a date of record for the distribution of cash dividends, the closing period for the share transfer and the delivery date for the cash dividends.	
Board of directors meeting	2012.07.19	1. Adopted resolution to authorize the Chairperson and three directors of the Company (including an independent director) to approve the disposal of not more than 25.5% of shares in Beats Electronics, LLC by Company's subsidiary in the US, HTC America Holding, Inc., to the founding members of Beats for the transaction amount of US$150,000,000. 2. Adopted resolution to authorize the Chairperson and three directors of the Company (including an independent director) to approve the lending of US$225,000,000 to Beats Electronics, LLC for the purpose of providing a one-year, short-term financing.	
Board of directors meeting	2012.10.26	1. Adopted resolution on the adjustment of the remaining shareholdings in Beats Electronics, LLC through the restructuring of the investment framework by the Company's subsidiary in the US, HTC America Holding, Inc.	
Year 2013			
Board of directors meeting	2013.02.19	1. Adopted resolution for the date, time and venue for the Company's 2013 Annual General Shareholders' Meeting, and the submission period and address for shareholders' proposals.	
Board of directors meeting	2013.05.01	1. Adopted resolution for Fiscal 2012 earnings distribution proposal.	

Note: Acting pursuant to resolutions adopted at the 2012 regular shareholders meeting regarding the earnings distribution proposal, HTC completed the distributions of cash dividends in 2012. For the employee cash bonuses distribution, HTC prepared the employee cash bonuses distribution list per the employee incentive and retention plan and executed accordingly.

12. Where, during the most recent fiscal year and current fiscal year up to the date of printing of this annual report, there was no Director or Supervisor expressing a dissenting opinion with respect to a material resolution passed by the board of directors and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof.

13. Summary of Resignations and Dismissals:

Item	Resolution
Type of personnel change	Principal Financial Officer
Dismissal date	2012.04.16
Name and title of the replaced person	Winston Yung, Chief Financial Officer and Spokesperson
Office date	2012.04.16
Name and title of the replacement	Chialin Chang, Chief Financial Officer and Spokesperson
Reason for the change	Personal position adjustment

3. Information on CPA professional Fees:

1. Scale of Information on CPA professional fees

Accounting Firm	Name of CPA	Audit Period	Note
Deloitte & Touche	Ming-Hsien Yang Tze-Chun Wang	Years Ended December 31, 2012	

Scale of Fee	Item		
	Audit Fee	Non-Audit Fee	Total Fee
Under NT$ 2,000,000		✓	
NT$ 2,000,000~NT$ 4,000,000			
NT$ 4,000,000~NT$ 6,000,000			
NT$ 6,000,000~NT$ 8,000,000			
NT$ 8,000,000~NT$ 10,000,000			
Over NT$ 10,000,000	✓		✓

2. Information on CPA professional fees

1. The amounts of both audit and non-audit fees as well as details of non-audit services are disclosed as follows:

Unit:NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					CPA's Audit Period	Note
			System Design	Company Registration	Human Resource	Others (note)	Subtotal		
Deloitte & Touche	Ming-Hsien Yang Tze-Chun Wang	11,470	-	56	-	1,100	1,156	Years Ended December 31, 2012	Transfer pricing report and international tax consultation

2. The company does not change its accounting firm.

3. Audit fees paid for the current year are not lower than those for the previous fiscal year by 15 percent or more.

4. The company does not replace its certified public accountant within the last two fiscal years or any subsequent interim period.

5. The company's Chairperson, General Manager, or any Managerial Officer in charge of finance or accounting matters has not in the most recent year hold a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm.

6. Transfer of equity interests and/or pledge of or change in equity interests by a Director, Supervisor, Managerial Officer, or shareholder with a stake of more than 10 percent during the most recent fiscal year and the current fiscal year up to the date of printing of this annual report.

1. Changes in shareholdings of Directors, Supervisors, Managers, and Major Shareholders

Unit：Shares

Title	Name	2012		2013.01.01 - 2013.04.23	
		Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Chairman	Cher Wang	5,000,000	0	0	0
Director	HT Cho	0	0	0	0
Director	Wen-Chi Chen	0	0	0	0
Director	Tan Ho-Chen	0	0	0	0
Director	David Bruce Yoffie	0	0	0	0
Independent Director	Chen-Kuo Lin	0	0	0	0
Independent Director	Josef Felder	0	0	0	0
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	0	0	0	0
Supervisor	Huang-Chieh Chu	0	0	0	0
Chief Executive Officer & President	Peter Chou	408,000	0	0	0
President of Engineering and Operations	Fred Liu	110,000	0	0	0

(Continued)

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CORPORATE GOVERNANCE

Title	Name	2012		2013.01.01 - 2013.04.23	
		Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Chief Financial Officer (note 1)	Chialin Chang	0	0	0	0
Chief Engineering Officer	David Chen	0	0	0	297,000
Chief Marketing Officer (note 2)	Ben Ho	--	--	0	0
Senior Vice President and Head of Design (note 3)	Scott Croyle	0	0	0	0
Chief Operating Officer	Matthew Costello	0	0	0	0
General Counsel	Grace Lei	0	0	(10,000)	0
Vice President, Talent Management (note 4)	Crystal Liu	17,000	0	0	0
President of Global Sales	Jason Mackenzie	0	0	(30,000)	0
President of North America (note 5)	Mike Woodward	0	0	0	0
President of EMEA (note 6)	Phil Blair	--	--	0	0
President of North Asia	Jack Tong	(54,000)	0	0	0
Head of HTC Communication, China	Ray Yam	0	0	0	0
Vice President, Studio Engineering	Simon Lin	0	0	0	0
Vice President, Hardware Engineering	WH Liu	0	0	0	0
Vice President, Wireless Software	Simon Hsieh	0	0	0	0
Vice President, MFG Operation	CS Wang	0	0	0	0
Vice President, Component Engineering & Quality Assurance	Georges Boulloy	0	0	0	0
Associate Vice President, MASD	Steve Wang	(35,000)	0	0	0
Associate Vice President, Studio	Thomas Chien	0	0	0	0
Associate Vice President, Finance & Accounting	James Chen	(10,250)	0	0	0
Associate Vice President, Finance & Accounting	Edward Wang	0	0	(4,000)	0
Supervisor (note 7)	Caleb Ou-Yang	0	0	--	--
Chief Product Officer (note 8)	Kouji A. Kodera	0	0	0	0
President of South Asia (note 9)	Lennard Hoornik	0	0	0	0
President of EMEA (note 10)	Florian Seiche	(18,000)	0	0	0
Director (note 11)	Joey Cheng	(9,000)	0	0	0
Vice President (note 12)	Gregory Fisher	0	0	(7,000)	0
Chief Marketing Officer (note 13)	John Wang	0	0	--	--

(Continued)

Title	Name	2012		2013.01.01 - 2013.04.23	
		Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Vice President (note 14)	Lotus Chen	(34,000)	0	--	--
Associate Vice President (note 15)	Jim Lin	0	0	--	--
Chief Financial Officer (note 16)	Winston Yung	(6,000)	0	--	--
Chief Information Officer (note 17)	Eric Chou	0	0	--	--
Chief Strategy Officer (note 18)	Ronald Allen Louks	(20,000)	0	--	--

(Concluded)

Note 1: Chialin Chang was appointed as insider manager on April 16, 2012.
Note 2: Ben Ho was appointed as insider manager on February 19, 2013.
Note 3: Scott Croyle was appointed as insider manager on October 26, 2012.
Note 4: Crystal Liu was appointed as insider manager on April 24, 2012.
Note 5: Mike Woodward was appointed as insider manager on October 26, 2012.
Note 6: Phil Blair was appointed as insider manager on May 1, 2013.
Note 7: Caleb Ou-Yang resigned on May 7, 2012.
Note 8: Kouji A. Kodera resigned on May 11, 2013.
Note 9: Lennard Hoornik was appointed as insider manager on October 26, 2012 and resigned on May 1, 2013.
Note 10: Florian Seiche resigned on May 1, 2013.
Note 11: Joey Cheng resigned on February 19, 2013.
Note 12: Gregory Fisher resigned on January 19, 2013.
Note 13: John Wang resigned on December 1, 2012.
Note 14: Lotus Chen resigned on October 26, 2012.
Note 15: Jim Lin resigned on June 30, 2012.
Note 16: Winston Yung resigned on April 16, 2012.
Note 17: Eric Chou resigned on March 16, 2012.
Note 18: Ronald Allen Louks resigned on February 14, 2012.

2. Stock transfer with related party: None

3. Stock Pledged with related party: None

7. Related parties, as defined in the Statement of Financial Accounting Standards No. 6, among the Company's 10 largest shareholders.

2013.04.23

Name (note 1)	Shareholding		Shareholding under spouse and children of minor age		Shareholding under the title of third party		Top 10 shareholders who are related parties to each other. (Note 2)		Note
	shares	%	shares	%	shares	%	Name	Relationship	
Way-Chih Investment Co., LTD. (Representative: Su-Lan Chiang)	43,819,290	5.14%	0	0.00%	0	0.00%	>Way-Lien Technology Inc. >Hon-Mou Investment Co., Ltd.	>Same chairman >Same chairman	
Way-Lien Technology Inc. (Representative: Su-Lan Chiang)	37,808,231	4.44%	0	0.00%	0	0.00%	>Way-Chih Investment Co., LTD. >Hon-Mou Investment Co., Ltd.	>Same chairman >Same chairman	
Cher Wang	32,272,427	3.79%	22,391389	2.63%	0	0.00%	>Wen-Chi Chen	Spouse	
Hon-Mou Investment Co., Ltd. (Representative: Su-Lan Chiang)	22,900,081	2.69%	0	0%	0	0.00%	>Way-Chih Investment Co., LTD. >Way-Lien Technology Inc.	>Same chairman >Same chairman	
Wen-Chi Chen	22,391,389	2.63%	32,272,427	3.79%	0	0.00%	>Cher Wang	>Spouse	
Standard Chartered Bank in custody for VANGUARD EMERGING MARKETS STOCK INDEX FUND	15,350,925	1.80%	0	0%	0	0.00%	None	None	
Citibank Taiwan in custody for Singapore Government Investment Fund	13,128,740	1.54%	0	0.00%	0	0.00%	None	None	
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	10,902,150	1.28%	0	0.00%	0	0.00%	None	None	
Kun Chang Investment Co,LTD	9,982,824	1.17%	0	0.00%	0	0.00%	None	None	
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital Word Growth and Income Fund	9,707,000	1.14%	0	0.00%	0	0.00%	None	None	

Note 1 : The top 10 shareholders shall all be listed; for institutional shareholders, the name of the entity and the name of its representative shall be listed separately.

Note 2 : Mutual relationships of shareholders, including judicial and natural persons, shall be disclosed.

8. Total number of shares and total equity stake held in the same enterprise by the Company, its Directors and Supervisors, Managers directly or indirectly

2013.03.31 Unit: share; dollar;%

Long-term investments (note)	Investments by HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
H.T.C. (B.V.I.) Corp.	1,221,451,760.30 shares	100%	0	0%	1,221,451,760.30 shares	100%
HTC America, Inc.	0	0%	1,000 shares	100%	1,000 shares	100%
HTC EUROPE CO., LTD.	0	0%	234,286,633 shares	100%	234,286,633 shares	100%
High Tech Computer (SuZhou) Co., Ltd.	0	0%	USD20,000,000 (NTD662,388 thousand)	100%	USD20,000,000 (NTD662,388 thousand)	100%

(Continued)

Long-term investments (note)	Investments by HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
HTC NIPPON Corporation	0	0%	1,000 shares	100%	1,000 shares	100%
HTC Brasil	0	0%	1,987,400 shares	100%	1,987,400 shares	100%
HTC Corporation (Shanghai WGQ)	0	0%	USD1,500,000 (NTD49,845 thousand)	100%	USD1,500,000 (NTD49,845 thousand)	100%
HTC HK, Limited	0	0%	1,071,283,030 shares	100%	1,071,283,030 shares	100%
HTC Belgium BVBA/SPRL	0	0%	18,550 shares	100%	18,550 shares	100%
HTC Italia SRL	0	0%	EUR10,000 (NTD422 thousand)	100%	EUR10,000 (NTD422 thousand)	100%
Communication Global Certification Inc.	20,000,000 shares	100%	0	0%	20,000,000 shares	100%
PT. High Tech Computer Indonesia	1,875 shares	1%	185,625 shares	99%	187,500 shares	100%
High Tech Computer Asia Pacific Pte. Ltd.	714,534,059 shares	100%	0	0%	714,534,059 shares	100%
High Tech Computer (H.K.) Limited	0	0%	2,000,000 shares	100%	2,000,000 shares	100%
HTC (Australia and New Zealand) Pty. Ltd.	0	0%	400,000 shares	100%	400,000 shares	100%
HTC Philippines Corporation	0	0%	858,767 shares	100%	858,767 shares	100%
HTC India Private Limited	0	0%	500,000 shares	100%	500,000 shares	100%
HTC Investment Corporation	30,000,000 shares	100%	0	0%	30,000,000 shares	100%
HTC Electronics (Shanghai) Co., Ltd.	0	0%	USD132,909,000 (NTD4,103,736 thousand)	100%	USD132,909,000 (NTD4,103,736 thousand)	100%
HTC (Thailand) Limited	0	0%	10,000,000 shares	100%	10,000,000 shares	100%
One & Company Design, Inc.	0	0%	60,000 shares	100%	60,000 shares	100%
HTC Malaysia Sdn. Bhd.	0	0%	25,000 shares	100%	25,000 shares	100%
HTC Innovation Limited	0	0%	5,000 shares	100%	5,000 shares	100%
HTC Communication Co., Ltd.	0	0%	USD27,500,000 (NTD891,326 thousand)	100%	USD27,500,000 (NTD891,326 thousand)	100%
HTC I Investment Corporation	29,500,000 shares	100%	0	0%	29,500,000 shares	100%
HTC Holding Cooperatief U.A.	EUR280 (NTD13 thousand)	1%	EUR380,294,570.51 (NTD13,994,239 thousand)	99%	EUR380,294,850.51 (NTD13,994,252 thousand)	100%
HTC Netherlands B.V.	0	0%	348,942,560 shares	100%	348,942,560 shares	100%
Huada Digital Corporation	25,000,000 shares	50%	0 share	0%	25,000,000 shares	50%
HTC France Corporation	0	0%	6,500,000 shares	100%	6,500,000 shares	100%
HTC America Holding, Inc.	0	0%	233,126,381 shares	100%	233,126,381 shares	100%
HTC America Innovation, Inc.	0	0%	1,000 shares	100%	1,000 shares	100%
HTC South Eastern Europe LLC.	0	0%	150 shares	100%	150 shares	100%
HTC Nordic ApS	0	0%	80,000 shares	100%	80,000 shares	100%
ABAXIA SAS	0	0%	805,716 shares	100%	805,716 shares	100%
HTC BLR	0	0%	US20,000 (NTD660 thousand)	100%	US20,000 (NTD660 thousand)	100%
HTC Poland sp. z o.o.	0	0%	4,687 shares	100%	4,687 shares	100%
HTC Germany GmbH	0	0%	25,000 shares	100%	25,000 shares	100%
HTC Iberia S.L.	0	0%	3,006 shares	100%	3,006 shares	100%
HTC Communication Canada, Ltd.	0	0%	500,000 shares	100%	500,000 shares	100%
HTC Rus LLC	0	0%	USD 400,000 (NTD12,279 thousand)	100%	USD 400,000 (NTD12,279 thousand)	100%
HTC Communication Sweden AB	0	0%	1,000,000 shares	100%	1,000,000 shares	100%
HTC Norway AS	0	0%	780,000 shares	100%	780,000 shares	100%
HTC Luxembourg S a r. l.	0	0%	12,500 shares	100%	12,500 shares	100%
Saffron Media Group Ltd.	0	0%	1,634,870,016 shares	100%	1,634,870,016 shares	100%
Saffron Digital Ltd.	0	0%	296,638,744 shares	100%	296,638,744 shares	100%
Saffron Digital Inc.	0	0%	76,000 shares	100%	76,000 shares	100%

(Continued)

Long-term investments (note)	Investments by HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
HTC America Content Services, Inc.	0	0%	1,000 shares	100%	1,000 shares	100%
HTC Communication Technologies (Shanghai) Limited	0	0%	USD4,000,000 (NTD120,799 thousand)	100%	USD4,000,000 (NTD120,799 thousand)	100%
HTC Investment One (BVI) Corporation	340,646,246 shares	100%	0	0%	340,646,246 shares	100%
S3 Graphics Co., Ltd.	0	0%	386,338,516 shares	100%	386,338,516 shares	100%
Dashwire, Inc.	0	0%	100 shares	100%	100 shares	100%
Inquisitive Minds, Inc.	0	0%	100 shares	100%	100 shares	100%
Beats Electronics, LLC	0	0%	26,100 shares	25.14%	26,100 shares	25.14%
FunStream Studio, Inc.	20,000 shares	100%	0	0%	20,000 shares	100%
Yoda Co., Ltd.	0	0%	NTD 20,000 thousand	100%	NTD 20,000 thousand	100%
HTC Middle East FZ-LLC	0	0%	3,500 shares	100%	3,500 shares	100%

(Concluded)

Note: HTC Long-term Investments.

9. Corporate Social Responsibility

At HTC, we are committed to making innovative products in a responsible manner—respecting people, the communities in which we operate, and the environment. Our global corporate social responsibility standards and sustainable goals are designed to:

- Create a sustainable, rewarding work environment where employees thrive
- Minimize our environmental impact as we bring products to market
- Sustain a responsible manufacturing process that has minimal environmental impact and supports our corporate and social standards

1. Health and Safety

Employees are our greatest asset, and we strive to create a healthy and safe working environment for all our our employees around the globe

1.1 Employee Safety

Certified under the Occupational Health and Safety Assessment 18001:2007 (OHSAS 18001:2007), we review our safety guidelines on an annual basis to reflect current standards established by local labors laws and industry-recognized standards.

1.2 Employee Health

HTC actively encourages employees to participate in company-sponsored wellness programs that include onsite health clinics and counseling. We also provide wellness services and medical coverage to employees' families and foreigner labors.

In our global corporate headquarters, the onsite fitness facility offers state-of-the-art exercise equipment, aerobics classes, yoga and boxing lessons, as well as wellness classes aimed to reduce stress and promote healthy living. Employees can play badminton, basketball, table tennis, and other sports at the fitness facility. Additionally, HTC has implemented a no-smoking policy on company premises to protect and enhance our indoor air quality and to contribute to the health and well-being of all employees.

HTC also actively supports working mothers in our Taoyuan campuses. HTC has established 18 designated lactation rooms to assist employees who are breastfeeding. In 2012, the rooms were used more than 35,000 times.

Employees receive ongoing health and safety training as required for their jobs, and our manufacturing facilities are closely managed through proper design, engineering and administrative controls, and preventative maintenance. Relevant employees are also trained to deal with a range of potential emergency situations to help HTC and our employees better deal with such scenarios.

2. Supplier Responsibility

As a member of the Electronic Industry Citizenship Coalition (EICC), HTC is committed to embodying and promoting appropriate conduct with respect to human rights, labor and the environment. We subscribe to the EICC Code of Conduct, and require all suppliers to adhere to its principles and standards. HTC suppliers are also required to sign the HTC supplier code of conduct, which mandates responsible labor, environmental and sourcing practices.

In addition, we actively manage the supplier auditing process and have a dedicated supplier audit team that travels to manufacturing suppliers' sites to ensure they are meeting local regulatory requirements and adhering to the HTC supplier code of conduct.

3. Responsible Sourcing

HTC has a policy of ethical sourcing which we require all of our suppliers to support. HTC is also committed to developing conflict-free minerals supply chains. Our sourcing policy requires that raw materials used in our products are extracted, processed and produced in a responsible manner, consistent with our environmental and ethical policies. As a condition of doing business with us, we require suppliers to adopt and enforce a sourcing policy that will ensure that the tantalum (also known as coltan), tin, tungsten and gold minerals used in their products do not come from the Democratic Republic of Congo and surrounding area.

HTC also regularly reviews our suppliers' mineral sourcing practices through our supplier audit program.

4. Environment

4.1 Material Management

The proper management of waste, chemicals and other materials is critical to the protection of the environment and the health and safety of our employees. We have implemented a series of design, supplier chain, and compliance management processes aimed to minimize our impact on the environment. In 2006, HTC established a green supply chain management platform to promote the use of green materials and to meet international laws, regulations and customer requirements. HTC products comply with the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) standards.

HTC recognizes that every stage in a product's life cycle has the potential to impact the environment. Since 2006, our research and development teams have regularly analyzed the Life Cycle Thinking (LCT) of our entire production cycle in order to give our designers the ability to make informed decisions that reduce our environmental impacts. In Taiwan, HTC has joined the Sustainable Development project initiated by the Ministry of Economic Affairs' Industrial Development Bureau to assess key Life Cycle Inventory (LCI) components and to contribute to the environmental loading database.

4.2 Sustainable Packaging

We are committed to offering environmentally preferable packaging for our products. Currently, HTC uses 89-90% recycled and 100% recyclable material for packaging. Of this, 65% is bagasse pulp and 35% is bamboo pulp, both of which are 100% renewable and biodegradable. We also require our paper suppliers to obtain the Forest Stewardship Council and Programme for the Endorsement of Forest Certification certificates. For packaging printing, we use low-volatile organic compound (low-VOC) ink and soy-based ink approved by the American Soybean Association.

In addition, all AC Adaptors used in HTC products meet and exceed international energy efficiency standards, such as the U.S. Energy Star, the U.S. California Energy Commission, the EU Code of Conduct and the Energy Efficiency Requirement for Energy Using Product Directive (EU No.278/2009).

4.3 Energy and Climate Change

Beginning in 2008, HTC has publically reported and verified its Greenhouse Gas Emissions (GHG) inventories and set GHG emissions reduction goals for all production facilities in Taiwan. In 2010, with the support of third-party agencies, HTC began publically reporting its GHG inventories for its Mainland China factories. HTC plans to work with third-party agencies such as the Carbon Disclosure Project to measure, analyze and reduce emissions for all its subsidiaries, and implement the ISO 50001 energy management standard to continue to identify and implement cost-effective energy efficiency programs across the company.

4.4 Green Building Designs

Situated in Xindian District of New Taipei City, Taiwan, the new HTC global corporate headquarters was awarded the Leadership in Energy and Environmental Design (LEED) Gold certification. The building employs energy efficient solutions for all building equipment, including air conditioning systems, lighting units and electrical systems. In addition, the headquarters met the ASHRAE 90.1-2007 energy-efficient design requirements.

5. Community Services

While focused on growth and innovation, we continue to invest in our communities and charitable causes. We partner with organizations that make a difference in improving our local communities. In 2012, the HTC Social Welfare Foundation supported a range of welfare programs in local communities that included academics and education, environmental protection, culture, and volunteer services. The HTC Education Foundation jointly sponsored character education programs with domestic and foreign educational institutions. Together with the Taitung County government in Taiwan, the HTC Foundation built the Taitung Character and English Academy as part of its commitment to education.

CHAPTER 5

INFORMATION ON CAPITAL RAISING ACTIVITIES

INFORMATION ON CAPITAL RAISING ACTIVITIES

1. Capital and Shares

1. Capitalization：

2013.04.23 Unit：Share；NT$

Month/ Year	Price	Authorized Shares	Authorized Amount	Paid-in Shares	Paid-in Amount	Remark: Sources of capital	Remark: Capital increase by assets other than cash	Remark: Other
03/1998	10	19,500,000	195,000,000	19,500,000	195,000,000	Cash offering	None	-
10/1998	10	200,000,000	2,000,000,000	100,000,000	1,000,000,000	Cash offering	None	Note 1
08/2000	40	200,000,000	2,000,000,000	125,000,000	1,250,000,000	Cash offering	None	Note 2
04/2001	163.5	200,000,000	2,000,000,000	127,600,000	1,276,000,000	Cash offering	None	Note 3
06/2002	10	200,000,000	2,000,000,000	162,720,000	1,627,200,000	Capitalization of profits	None	Note 4
09/2003	10	270,000,000	2,700,000,000	202,764,000	2,027,640,000	Capitalization of profits	None	Note 5
11/2003	131.1	270,000,000	2,700,000,000	217,164,000	2,171,640,000	Cash offering	None	Note 6
03/2004	10	270,000,000	2,700,000,000	218,731,347	2,187,313,470	Merger	None	Note 7
08/2004	10	450,000,000	4,500,000,000	271,427,616	2,714,276,160	Capitalization of profits	None	Note 8
01/2005	127.95	450,000,000	4,500,000,000	276,311,395	2,763,113,950	Conversion of ECB	None	Note 9
04/2005	127.95	450,000,000	4,500,000,000	288,763,321	2,887,633,210	Conversion of ECB	None	Note 9
09/2005	10	450,000,000	4,500,000,000	357,015,985	3,570,159,850	Capitalization of profits	None	Note 10
08/2006	10	550,000,000	5,500,000,000	436,419,182	4,364,191,820	Capitalization of profits	None	Note 11
04/2007	10	550,000,000	5,500,000,000	432,795,182	4,327,951,820	Capital reduction : Cancellation of Treasury Shares	None	Note 12
09/2007	10	650,000,000	6,500,000,000	573,133,736	5,731,337,360	Capitalization of profits	None	Note 13
08/2008	10	1,000,000,000	10,000,000,000	755,393,856	7,553,938,560	Capitalization of profits	None	Note 14
02/2009	10	1,000,000,000	10,000,000,000	745,393,856	7,453,938,560	Capital reduction : Cancellation of Treasury Shares	None	Note 15
08/2009	10	1,000,000,000	10,000,000,000	796,020,844	7,960,208,440	Capitalization of profits	None	Note 16
11/2009	10	1,000,000,000	10,000,000,000	788,935,844	7,889,358,440	Capital reduction : Cancellation of Treasury Shares	None	Note 17
04/2010	10	1,000,000,000	10,000,000,000	773,935,844	7,739,358,440	Capital reduction : Cancellation of Treasury Shares	None	Note 18
08/2010	10	1,000,000,000	10,000,000,000	817,653,285	8,176,532,850	Capitalization of profits	None	Note 19
07/2011	10	1,000,000,000	10,000,000,000	862,052,170	8,620,521,700	Capitalization of profits	None	Note 20
12/2011	10	1,000,000,000	10,000,000,000	852,052,170	8,520,521,700	Capital reduction : Cancellation of Treasury Shares	None	Note 21

Note 1：Approval Document No.： The 23 July 1998 Letter No. Taiwan-Finance-Securities-I-59976 of the Securities and Futures Commission (SFC), Ministry of Finance.

Note 2：Approval Document No.： The 21 July 2000 Letter No. Taiwan-Finance-Securities-I-59899 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 3：Approval Document No.： The 13 April 2001 Letter No. Taiwan-Finance-Securities-I-118901 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 4：Approval Document No.： The 30 April 2002 Letter No. Taiwan-Finance-Securities-I-119837 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 5：Approval Document No.： The 28 July 2003 Letter No. Taiwan-Finance-Securities-I-0920133959 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 6：Approval Document No.： The 06 November 2003 Letter No.Taiwan-Finance-Securities-I-0920146220 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 7：Approval Document No.： The 16 January 2004 Letter No. Taiwan-Finance-Securities-I-0920162653 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 8：Approval Document No.： The 09 July 2004 Letter No. Finance-Supervisory-Securities-I-0930130457 of the Securities and Futures Bureau of the Financial Supervisory Commission Executive Yuan

Note 9：Approval Document No.： The 14 January 2003 Letter No. Taiwan-Finance-Securities-I-09100169047 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 10：Approval Document No.： The 12 July 2005 Letter No. Financial-Supervisory-Securities-I-0940128133 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 11：Approval Document No.： The 06 July 2006 Letter No. Financial-Supervisory-Securities-I-0950128723 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 12：Approval Document No.： The 25 January 2007 Letter No. Financial-Supervisory-Securities-III0960004848 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 13：Approval Document No.： The 12 July 2007 Letter No. Financial-Supervisory-Securities-I-0960036213 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 14：Approval Document No.： The 25 June 2008 Letter No. Financial-Supervisory-Securities-I-0970031749 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 15：Approval Document No.： The 16 December 2008 Letter No. Financial-Supervisory-Securities-III0970068202 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 16：Approval Document No.： The 9 July 2009 Letter No. Financial-Supervisory-Securities-0980034309 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 17：Approval Document No.： The 8 October 2009 Letter No. Financial-Supervisory-Securities-0980053814 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 18：Approval Document No.： The 9 March 2010 Letter No. Financial-Supervisory-Securities-0990010834 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 19：Approval Document No.： The 2 July 2010 Letter No. Financial-Supervisory-Securities-0990034358 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 20：Approval Document No.： The 30 June 2011 Letter No. Financial-Supervisory-Securities-1000030339 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 21：Approval Document No.： The 8 November 2011 Letter No. Financial-Supervisory-Securities-1000054193 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

2013.04.23 Unit：Share

Type of stock	Authorized Capital: Outstanding shares	Authorized Capital: Unissued Shares	Authorized Capital: Total	Remark
Common Stock	852,052,170	147,947,830	1,000,000,000	(1) Of our authorized capital, 16,000,000 shares are reserved for the exercise of stock warrants, preferred shares with warrants, or corporate bonds with warrants (2) The outstanding shares include 20,825,045 shares of treasury stock bought back by HTC to be used for transfer to employees.

2. Shareholder structure:

2013.04.23

Structure \ Shareholder	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Treasury stock	Total
Number of shareholders	1	34	433	982	136,737	1	138,188
Shareholding	14	26,699,372	142,529,406	229,447,235	432,551,098	20,825,045	852,052,170
Holding percentage	0.00%	3.13%	16.73%	26.93%	50.77%	2.44%	100.00%

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INFORMATION ON CAPITAL RAISING ACTIVITIES

3. Distribution of ownership:

2013.04.23 Each share having a par value of NT$10

Shareholder Ownership (Unit : share)	Number of Shareholders	Ownership	Ownership (%)
1 - 999	23,387	4,177,576	0.49%
1,000 - 5,000	101,552	179,079,598	21.02%
5,001 - 10,000	7,762	58,450,671	6.86%
10,001 - 15,000	2,120	26,732,616	3.14%
15,001 - 20,000	1,095	19,885,770	2.33%
20,001 - 30,000	830	20,966,159	2.46%
30,001 - 40,000	364	13,004,772	1.53%
40,001 - 50,000	239	10,995,189	1.29%
50,001 - 100,000	395	28,282,065	3.32%
100,001 - 200,000	202	27,907,305	3.28%
200,001 - 400,000	112	29,048,329	3.41%
400,001 - 600,000	35	17,586,656	2.06%
600,001- 800,000	15	10,314,099	1.21%
800,001 - 1,000,000	15	13,775,682	1.62%
Over 1,000,001	65	391,845,683	45.98%
Total	138,188	852,052,170	100.00%

4. List of principal shareholders:

2013.04.23

Name of principal shareholders	Shares	
	Current Shareholding	Percentage
Way-Chih Investment Co., LTD.	43,819,290	5.14%
Way-Lien Technology Inc.	37,808,231	4.44%
Cher Wang	32,272,427	3.79%
Hon-Mou Investment Co., Ltd.	22,900,081	2.69%
Wen-Chi Chen	22,391,389	2.63%
Standard Chartered Bank in custody for VANGUARD EMERGING MARKETS STOCK INDEX FUND	15,350,925	1.80%
Citibank Taiwan in custody for Singapore Government Investment Fund	13,128,740	1.54%
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	10,902,150	1.28%
Kun Chang Investment Co,LTD	9,982,824	1.17%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital Word Growth and Income Fund	9,707,000	1.14%

5. Share prices for the past two fiscal years, the Company's net worth per share, earnings per share, dividends per share, and related information:

Item \ Year			2011	2012	2013.01.01-2013.03.31
Market price per share	Highest market price		1,300	672	307.5
	Lowest market price		403	191	231
	Average market price		887.12	381.41	272.77
Net worth per share (Note)	Before distribution		121.03	96.69	97.37
	After distribution		81.35	94.69 (Note)	95.37 (Note)
Earnings per share	Weighted average shares (thousand shares)		845,319	831,980	831,227
	Earnings per share		73.32	20.17	0.1
	Retroactively adjusted earnings per share		73.32	20.17 (Note)	0.1 (Note)
Dividends per share	Cash dividends		40	2 (Note)	
	Stock dividends	Dividends from retained earnings	0	0 (Note)	
		Dividends from capital surplus	-	-	
	Accumulated undistributed dividend		-	-	
Return on investment	Price/Earnings ration		12.10	18.91	
	Price/Dividend ratio		22.18	190.71 (Note)	
	Cash dividend yield		4.51%	0.52% (Note)	

(Continued)

(Concluded)

Note ：2013 pending on the approval of the Shareholders Meeting.

6. Dividend policy:

(1) Dividend policy:

Since the Company is in the capital-intensive technology sector and growing, dividend policy is set with consideration to factors such as current and future investment climate, demand for working capital, competitive environment, capital budget, and interests of the shareholders, balancing dividends with long-term financial planning of the Company. Dividends are proposed by the Board of Directors to the Shareholders' Meeting on a yearly basis. Earnings may be allocated in cash or stock dividends, provided that the ratio of cash dividends may not be less than 50% of total dividends.

According to the Company's Articles of Incorporation, earnings shall be allocated in the following order:

• To pay taxes.

• To cover accumulated losses, if any.

• To appropriate 10% legal reserve unless total legal reserve accumulated has already reached the amount of the Company's authorized capital.

• To pay remuneration to Directors and Supervisors up 0.3% of the balance after deducting the amounts under subparagraphs 1 to 3.

• To pay bonus to employees up 5% of the balance after deducting the amounts under subparagraphs 1 to 3, or such balance plus unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions 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.

• For any remainder, the Board of Directors shall propose dividend distribution to the Shareholders' Meeting based on the dividend policy set forth in paragraph 2 of this Article.

(2) Dividend distribution proposed at the most recent shareholders' Meeting：(Proposal adopted by the Board pending approval by the Shareholders Meeting.)

On May 1, the Board of Directors adopted a resolution to distribute NT$1,662,454,250 in cash dividend. It translates to NT$ 2 cash dividends per share (based on the number of outstanding shares as of book closure date, excluding share repurchases, for the 2013 Annual Shareholders' Meeting). The Board of Directors may

5 INFORMATION ON CAPITAL RAISING ACTIVITIES

necessary adjustments to the actual distribution ratio on the basis of the number of issued and outstanding shares registered in the Common Stockholders' Roster as at the record date.

(3) There is no material change in dividend policy.

7. Impact of the Stock Dividend Proposal on Operational Performance and Earnings per Share:

HTC will not distribute stock dividends at the 2013 Annual Shareholders' Meeting; therefore it is not applicable.

8. Employee Profit Sharing and Compensation for Directors and Supervisors:

(1) Percentage and scope of employee profit sharing and Director and Supervisor remuneration as stipulated in the Company's Article of Incorporation.

The Company's Articles of Incorporation stipulate that earnings 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 total legal reserve accumulated has already reached the amount of the Company's authorized capital.
d. To pay remuneration to Directors and Supervisors up 0.3% of the balance after deducting the amounts under subparagraphs 1 to 3.
e. To pay bonus to employees up 5% of the balance after deducting the amounts under subparagraphs 1 to 3, or such balance plus unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions 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.

(2) Employee Bonus proposal adopted by the Board：

Unit: NT$ thousands

Distribution of 2012 Earnings	Accrued Expenses for Employee Bonus	Resolution Approved by the Board of Directors	
Employee Bonus	976,327	2013.05.01	
		Employee Stock Bonus	0
		Employee Cash Bonus	976,327
		Total Amount	976,327
Directors' and Supervisors' Remuneration	0		0

Note：There is no difference between the value of employee bonuses and Director/Supervisor remunerations proposed by the Board and expenses accrued in the financial reporting period.

(3) Distributions of 2011 employees' bonus and remunerations for Directors and Supervisors:

Distributions of earnings in 2011		
Date of the Board resolution		2012.04.24
Date of Annual Shareholders' Meeting		2012.06.12
Total stock bonus as employee bonus	Total Number of Shares	0
	Total Amount (NT$1,000)	0
Total cash bonus as employee bonus (NT$1,000)		7,238,637
Total employee bonus (NT$1,000)		7,238,637
Director' and Supervisors' Remuneration (NT$1,000)		0

9. Share Repurchases:

Topic	Explanation
Initial Estimation of Share Buy-back Status	
Board of Director resolution	12/20/2011
Purpose of the share buy-back	To transfer stocks to employees. According to the Regulations Governing Share Repurchase by Listed and OTC Companies, Article 2 requires to buy back Treasury stocks.
Type of share buy-back	Common stock
Total amount allocated for share buy-back	NTD 6,500,000,000
Buy-back period	12/20/2011-02/19/2012
Estimated number of buy-back shares (as percentage of total outstanding shares) (Note 1)	10,000,000 shares (1.16%)
Estimated buy-back price interval	Buy-back stock price is between NTD 445 to NTD 650. It is further resolved by the Board of Directors to continue buy-back of shares if the stock price falls under NTD 445.
Method of Buy-back	Buy-back shares from stock exchange
Actual Stock Buy-back Status	
Buy-back period	12/30/2011-02/17/2012
Number of buy-back shares (as a percentage of total shares outstanding) (Note2)	6,914,000 shares (0.81%)
Total amount for buy-back shares	NTD 3,750,055,902
Average price per buy-back share	NTD 542.39
Number of Shares Cancelled or Transferred	0 shares
Cumulative number of own shares held	20,825,045 shares
Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company's issued shares	2.44%

Note 1: The percentage is calculated based on the total outstanding shares when the Company reported share repurchase.
Note 2: The percentage is calculated based on the total outstanding shares when the Company reported expiration of repurchase period or completion of the repurchase.

2. Issuance of corporate bonds

None

3. Status of Preferred shares

None

4. Global depository receipts

2013.03.31

Issue Date			2003.11.19
Issuance and Listing			Luxembourg
Total amount			USD 105,182,100.60
Offering price per GDR			USD 15.4235
Units issued			9,015,121 units (note)
Underlying securities			Cash offering and common shares from selling shareholders
Common shares represented			36,060,497 shares (note)
Rights and obligations of GDR holders			Same as that of common share holders
Trustee			Not applicable
Depositary bank			Citibank, N.A.–New York
Custodian bank			Citibank Taiwan Limited
GDRS outstanding			499,000 units
Apportionment of expenses for issuance and maintenance			All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of GDRS were borne by HTC and the selling shareholders, while maintenance expenses such as annual listing fees and accounting fees were borne by HTC.
Terms and conditions in the deposit agreement and custody agreement			See deposit agreement and custody agreement for details
Closing price per GDR	2012	High	USD89.90
		Low	USD26.52
		Average	USD51.97
	2013.01.01~2013.03.31	High	USD41.81
		Low	USD31.57
		Average	USD36.85

Note: The total number of units issued includes the 6,819,600 units originally issued (representing 27,278,400 shares of common stock) plus additional units issued in stock dividends in past years on common shares underlying the overseas depositary receipts, as itemized below.
18 August 2004: dividends issued on common shares underlying the overseas depositary receipts in the amount of 216,088 additional units (representing 864,352 common shares)
12 August 2005: dividends issued on common shares underlying the overseas depositary receipts in the amount of 70,290 additional units (representing 281,161 common shares)
1 August 2006: dividends issued on common shares underlying the overseas depositary receipts in the amount of 218,776 additional units (representing 875,107 common shares)
20 August 2007: dividends issued on common shares underlying the overseas depositary receipts in the amount of 508,556 additional units (representing 2,034,224 common shares)
21 July 2008: dividends issued on common shares underlying the overseas depositary receipts in the amount of 488,656 additional units (representing 1,954,626 common shares)
9 August 2009: dividends issued on common shares underlying the overseas depositary receipts in the amount of 170,996 additional units (representing 683,985 common shares)
3 August 2010: dividends issued on common shares underlying the overseas depositary receipts in the amount of 311,805 additional units (representing 1,247,223 common shares)
26 July 2011: dividends issued on common shares underlying the overseas depositary receipts in the amount of 210,354 additional units (representing 841,419 common shares)

5. Status of employee share subscription warrants

1. The annual report shall disclose unexpired employee subscription warrants issued by the company in existence as of the date of printing of the annual report, and shall explain the effect of such warrants upon shareholders' equity: During the current fiscal year up to the date of printing of the annual report, HTC did not have unexpired employee subscription warrants issued by the company; therefore it is inapplicable.
2. The annual report shall disclose the names of top-level company executives holding employee share subscription warrants and the cumulative number of such warrants exercised by said executives as of the date of printing of the annual report. The annual report shall also disclose the names of the ten employees holding employee subscription warrants authorizing purchase of the most shares where the purchase price of such shares is NT$30 million or greater, along with the cumulative number of warrants exercised by these ten employees, as of the date of printing of the annual report.
During the current fiscal year up to the date of printing of the annual report, HTC did not have unexpired employee subscription warrants issued by the company; therefore it is inapplicable.

6. Issuance of new shares for mergers and acquisitions

1. During the current fiscal year up to the date of printing of this annual report, the Company has not issued new shares for mergers and acquisitions.
2. During the current fiscal year up to the date of printing of this annual report, the Board of Directors has not adopted any resolution to issue new shares for mergers and acquisitions.

7. Implementation of the Company's funds utilization plan

The Company does not have unfinished funds utilization plans or plans that have not produced the desired benefits during the fiscal year up to the date of printing of this annual report.

5 INFORMATION ON CAPITAL RAISING ACTIVITIES

CHAPTER 6

FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

1. FINANCIAL STATUS

Unit：NT$ thousands

Item	2012	2011	Difference	
			Amount	%
Current Assets	139,658,980	192,859,891	(53,200,911)	(28)
Long-term Investments	10,197,272	3,685,262	6,512,010	177
Fixed Assets	25,651,292	21,512,478	4,138,814	19
Intangible Assets	11,520,674	22,560,788	(11,040,114)	(49)
Other Assets	19,575,908	15,178,544	4,397,364	29
Total Assets	206,604,126	255,796,963	(49,192,837)	(19)
Current Liabilities	126,174,912	153,334,697	(27,159,785)	(18)
Long-term Liabilities	-	-	-	-
Other Liabilities	59,999	42,946	17,053	40
Total Liabilities	126,234,911	153,377,643	(27,142,732)	(18)
Capital Stock	8,520,521	8,520,521	-	-
Capital Surplus	16,619,594	16,619,594	-	-
Retained Earnings	70,148,728	86,616,845	(16,468,117)	(19)
Equity Adjustments	(854,138)	34,780	(888,918)	(2,556)
Treasury Stock	(14,065,490)	(10,365,144)	(3,700,346)	36
Equity Attributable to Stockholders of the Parent	80,369,215	101,426,596	(21,057,381)	(21)
Minority Interest	-	992,724	(992,724)	(100)
Total Stockholders' Equity	80,369,215	102,419,320	(22,050,105)	(22)

* All numbers above are based on consolidated financial statements.

Explanations for any material changes in HTC's assets, liabilities, and shareholders' equity in the most recent two fiscal years

Assets: The level of current assets decreased in 2012 vs. the 2011 level. This reduction was mainly due to lower revenue, sustained cash dividend payouts and investments in additional production capacity, resulting in net cash outflow and lower accounts receivables. Long-term investments were higher in 2012 compared to those of 2011. It was mainly due to the partial disposal of Beats Electronic LLC, an investment previously classified as a subsidiary in 2011 and later as a long-term investment under the equity method in 2012. Intangible assets saw a reduction in 2012 vs. 2011, due to the regular amortization of assets with defined useful lives and the disposal of Beats Electronic LLC, which required goodwill and other intangible assets associated with the investment to be recognized as a long-term investment under the equity method. Other assets saw an increase from 2011 to 2012; mainly due to uncollected sales proceeds from the partial disposal of Beats Electronic LLC.

Debt: Liabilities decreased from 2011 to 2012, mainly due to lower revenues and related reductions in purchasing and accounts payables.

Shareholders' Equity: A reduction in retained earnings was the result of the continued payout of a cash dividend based on historical rates and reduced profits caused by lower revenue. Other adjustments to shareholders' equity decreased mainly due to cumulative exchange rate adjustments recognized by foreign operations. The amount of treasury stock increased because of the company's share buyback program in 2012.

2. OPERATING RESULTS

Unit：NT$1,000

Item	2012	2011	Difference	%
Revenues	289,020,175	465,794,773	(176,774,598)	(38)
Cost of Revenues	216,095,098	333,997,246	(117,902,148)	(35)
Gross Profit	72,925,077	131,797,527	(58,872,450)	(45)
Operating Expenses	54,105,370	63,009,760	(8,904,390)	(14)
Operating Income	18,819,707	68,787,767	(49,968,060)	(73)
Non-operating Income and Gains	2,240,310	2,783,264	(542,954)	(20)
Non-operating Expenses and Losses	1,609,559	147,344	1,462,215	992
Income From Continuing Operations Before Income Tax	19,450,458	71,423,687	(51,973,229)	(73)
Income Tax	1,861,272	9,124,639	(7,263,367)	(80)
Income From Continuing Operations	17,589,186	62,299,048	(44,709,862)	(72)
Net Income	17,589,186	62,299,048	(44,709,862)	(72)
Net Income Attributable to Stockholders of the Parent	16,780,968	61,975,796	(45,194,828)	(73)

* All numbers above are based on consolidated financial statements.

Explanations for any material changes in HTC's revenues, operating income, and pre-tax income in the most recent two fiscal years

Intensifying competition in the world's mobile phone market led to lower revenue in 2012 compared to 2011. Operating costs were reduced proportionally in line with the decline in revenue. Gross profit in 2012 was down 45% vs. 2011 as a result of increasingly competitive product pricing. To maintain the scope of global marketing efforts operating expenses were only reduced by 14% YoY.

HTC's revenue comes mainly from its primary business, income from interest, forex gain/loss, and valuation gain/loss on financial instruments accounted for nearly all non-operating gain/loss; the overall difference between 2012 and 2011 was approximately NT$500 million reduction in non-operating income. Net income before tax in 2012 totaled NT$19.5 billion, which was NT$52 billion lower than the previous year.

3. Cash Flows

1. Analysis of change in cash flow for the most recent fiscal year

Item / Year	2012	2011	%
Cash Flow Ratio (%)	18	58	(69)
Cash Flow Adequacy Ratio (%)	126	158	(20)
Cash Flow Reinvestment Ratio (%)	(11)	53	(121)

Explanation and analysis of change

2012 revenue was down YoY, which meant net cash flow from operating activities saw a 74% decrease, with current liabilities down 18% compared to 2011. As a result, the company's cash flow ratio decreased to 18%. Meanwhile, HTC continued to invest in additional production capacity and office expansion to meet anticipated future demand coupled with continued payout of a cash dividend based on historical rates, despite the deterioration in cash flow from operating activities in 2012. This resulted in a lower cash adequacy ratio of 126%. The company's cash flow reinvestment ratio fell and turned negative mainly because of the continued payment of a cash dividend and lower cash inflow from operating activities in 2012, producing a negative denominator (net cash flow from operating activities – cash dividends).

2. Cash flow analysis for the coming year

We expect our net cash flows from operating activities and ample cash on-hand can fully support capital expenditures, cash dividends and all other cash needs in 2013.

4. THE EFFECT ON FINANCIAL OPERATIONS OF MATERIAL CAPITAL EXPENDITURES DURING THE MOST RECENT FISCAL YEAR

1. Review and analysis of material capital expenditures and funding sources

(1) Material capital expenditure and funding sources

Unit：NT$1,000

Planned items	Actual or projected sources of capital	Actual or projected date of completion	Total capital needed (as of FY2012)	Actual or projected capital utilization		
				2010	2011	2012
Purchase and Installation of Equipment / Facilities	working capital	2010-2012	10,611,010	3,289,848	3,946,634	3,374,528
Plant/Building Construction	working capital	2010-2012	9,979,299	1,941,918	4,490,062	3,547,319

(2) Anticipated Benefits

New Plant/Building Construction

The new Taoyuan Headquarters campus and Taipei headquarters building are essential to expanding production and providing HTC employees with an appropriate working environment.

New Equipment / Facilities

Replacement / upgrade of equipment and facilities is critical to enhancing productivity and meeting rising market demand.

5. Investment Diversification in Recent Years

HTC's direct investment strategy focuses on the industry segments that enhance HTC's core businesses and long-term strategic developments. Evaluation analysis is based on industry dynamics, market competition, founding team experience, business model and risk analysis. The final goal is to make key strategic investments (via minority or control) in companies and industries that strengthen HTC's product and service offerings and its long-term competitiveness

HTC made only one strategic investment in 2012. Magnet Systems, Inc. is located in Palo Alto, California with a next-generation mobile enterprise software platform. Smartphone application services, increasingly widespread with the advent of 4G, are likely to see increased growth as the mobile enterprise application market further integrates with the smartphone. Through this strategic investment in Magnet, HTC aims to take full advantage of the resources and opportunities of the mobile enterprise application market.

6. Competitive Advantages, Business Growth and Assessment of Risks

1. Potential Factors That May Influence HTC's Competitiveness/Business Growth and Related Countermeasures

Critical competitive factors in HTC's industry include: 1) product R&D and innovation capabilities, 2) strategic partnerships with industry leaders and 3) accurate grasp of market trends. The following assesses HTC's competitiveness in terms of factors deemed to support and detract from HTC achieving its business goals.

- **Factors Favorable to HTC Growth**

(1) Partnerships with Industry Leaders Help HTC Drive Industry Trends

HTC has always developed smartphone products in close cooperation with industry leaders such as Google®, Microsoft®, Qualcomm® as well as the world's leading telecom operators. Examples include HTC's launch of the world's first Windows Mobile smartphone and first Android smartphone. Our strong partnerships deliver greater choice to consumers while continuing to drive industry innovation.

(2) Long-term Cooperative Relationships with Telecom Providers Keep HTC Abreast of Consumer Demand

HTC promotes products directly to mass-market consumers via long-term, unique relationships with the world's largest telecommunications service providers that include the four big mobile operators in the United States, five major operators in Europe and several fast growing carriers in Asia. These relationships not only keep HTC abreast of user demand but also allow HTC to better tailor its products and services to the needs of each carrier partner.

(3) Diverse and growing universe of mobile digital services drives smartphone market penetration

New mobile phone operating systems such as Android and iOS, which permit easy app store downloading of social networking, shopping, travel, game and other software, are attracting even more consumers to the ranks of smartphone users. Smartphone industry is now in the strong growing stage, and telecom operators' aggressively rollout of 4G fastest mobile Internet networks to stimulate growth even further. These developments should all have a positive impact on HTC business growth prospects.

(4) Instilling a positive corporate culture enhances organizational flexibility and responsiveness

HTC promotes a unique corporate culture that is designed to instill passion for innovation and commitment to the highest standards. Our lack of barriers between departments promotes synergy and dynamism even further. HTC's highly efficient operations have been affirmed by numerous international quality standards including ISO-9001, ISO-14001, ISO-14064-1, TL-9000, and OHSAS 18001. Outstanding in-house research and development capabilities give HTC the competitive edge to reach the market first with many industry leading innovations and features.

(5) Comprehensive domestic industry base supports current and future growth needs

Active government and private sector efforts to grow the domestic high tech sector in recent decades have given Taiwan a strong foundation of skilled researchers and technicians. Taiwan is further benefiting from the increase of industry supply and support systems and industry clustering effects. In addition to making it easier for us to recruit and retain personnel, these developments allow us to cooperate with domestic and international suppliers in order to lower purchase costs and respond even faster to industry trends and changes in.

- **Factors Adverse to the Achievement of HTC Growth Goals and Relevant Countermeasures**

Many current and potential competitors are now active in the smartphone market looking to benefit from the rapid growth and demand of smartphone technologies. Competition is expected to continue to intensify as the smartphone user base grows, smartphone functions and features increase, and smartphone model lifecycles shorten. The following outlines HTC measures and response to such challenges.

(1) We work actively to establish HTC's brand value, enhance global brand recognition and preference, and leverage effective brand management activities and product promotions to establish the HTC brand as consumers' "first choice" in smartphones.

(2) We emphasize innovation to maintain a leading competitive edge. Product differentiation and innovations in user experience allow us to develop a wide range of products tailored to meet diverse consumer needs. HTC Sense® is designed with customer at the center to make mobile phones more intuitive and easy to use.

(3) We upgrade our materials requirement planning (MRP) system to improve our ability to manage material inventories, anticipate future demand in order to drive efficient inventory costs and reduce inventory devaluation risks. We continue to build and diversify supplier relationships to enhance supply stability. Our objectives are consistent and uninterrupted supply of all materials. HTC's leadership in the industry helps ensure that suppliers accommodate and meet HTC priorities in expanding market sales. This helps mitigate risks related to reliance on overseas suppliers for critical components. We also cultivated strategic business relationship with our suppliers.

(4) We work hard to maximize the productivity of each of our business chain, enhance time management, standardize workflows and fully implement ISO quality control practices in order to improve competitiveness through efficient process, reduced communications costs and comprehensive quality management.

(5) As the fastest growing sector of Taiwan's economy, the electronics industry requires a steady stream of human resources. Downsizing in the manufacturing sector has increased the difficulty in hiring entry-level workers. HTC plans to continue to hire foreign workers and work with schools to help increase domestic hiring in the future.

2. Risk Factors

The following describes identified risks and related mitigating measures.

(1) Interest, forex, and inflation rate risks and mitigating measures

Impact on HTC profitability:

Item	2012 (NT$1,000 or %)
Net Interest Income	615,920
Net Forex Income	684,300
Net Interest Income as percentage of net revenue	0.21%
Net Interest Income as percentage of Earnings Before Tax	3.17%
Net Forex Income as percentage of net revenue	0.24%
Net Forex Income as percentage of Earnings Before Tax	3.52%

Note: Calculated on HTC consolidated financial numbers

Working capital required to support the expansion of HTC business operations has over recent years been supplied exclusively from internal finances. As the corporation has not taken out long-term loans, fluctuations in interest rates have had no effect on the Company's liabilities. HTC is prudent in its financial policies, and our asset allocation decisions prioritize security and fluidity, with most funds kept in time deposit accounts. In 2012, HTC interest income totaled NT$616 million.

HTC's revenues are denominated primarily in US dollars (USD) and euros (EUR). Manufacturing costs are denominated primarily in US dollars. Forex fluctuations have the potential to impact HTC revenues, operating costs and operating profits. Apart from efficient management of the quality and payment cycles of its foreign currency-denominated accounts receivable, HTC uses forward exchange contracts to minimize its forex risk. At the close of 2012, financial derivatives held by HTC related to exchange risk were valued at USD340 million, EUR146 million, GBP20.7 million, JPY8,097 million, CNH 1,148 million and CAD21.9 million. Fair value of the derivatives changes as a result of forex fluctuations. A decrease of 1% in the quoted exchange rate of any one of the abovementioned currencies against the NT dollar would result in a derivatives holding benefit to HTC of approximately NT$252 million.

During 2012, the euro depreciated against the NT dollar from 1:39 to 1:36, but appreciated against the NT dollar to 1:38 at the end of the year. The US dollar declined from 1:30.3 against the NT dollar to approximately 1:29.1. Net exchange income earned during 2012 totaled NT$684 million. Under effective management by the Company, negative effects of exchange rate fluctuations on profits in recent years have been minimal.

Inflation in Taiwan was approximately 1.9% in 2012. Inflation rates in North American and European markets were also relatively negligible. Overall, inflation had no significant impact on HTC profits.

(2) Risks associated with high-risk/high-leveraged investment; lending, endorsements, guarantees for other parties and financial derivative transactions

HTC does not engage in high-risk ventures or highly leveraged investments. Loaning of funds takes place only between HTC subsidiaries. All such arrangements must be reviewed and approved by the board of directors in accordance with the Operational Procedures for Fund Lending and Rules for Endorsements and Guarantees. HTC engages in derivative products trading only to mitigate forex risks arising from foreign currency assets and liabilities. All derivative trading is conducted according to stipulations written in the Procedures for Acquisition or Disposal of Assets.

(3) Future R&D plans and anticipated R&D expenditures

The Company's R&D programs for the most recent fiscal year primarily focus on research and development of applications related to the user experience and mobile data services, and on providing product-related technical support and after-sales service.

In addition to further developing its existing smartphone product line, the Company will continue to research and develop technologies that enhance the user experience, such as wide-angle front camera technologies that allow users to have an ever-more perfect self-shooting experience by enabling the lens to image a broader background, and high efficiency, low distortion headphone amplifiers and built-in speakers whose sound is even more stunning. HTC is also exploring dual card, dual mode capabilities that permit dual card users to answer incoming calls whether surfing the Internet or downloading information, while the phone smoothly juggles all the necessary systems. Through HTC's advanced technologies users will continue to enjoy richer, more personalized mobile phone experiences.

Since its founding, HTC has poured resources into fostering research and development talent and into technological innovation. At present R&D personnel account for 30% of HTC's employees worldwide, while investment in R&D resources equals 4-5% of operating income. In the future, HTC will continue to break new ground in the smart handheld device industry and further streamline the user experience in order to strengthen the company's long-term competitiveness.

(4) Effects of domestic / foreign government policies and regulations on HTC finances and response measures

The Financial Supervisory Committee (FSC) of the Executive Yuan has required all listed companies in Taiwan to prepare financial statements in accordance with the International Financial Reporting Standards (IFRSs) starting from January 1, 2013. HTC has established an IFRSs project team and has launched the project plan for its IFRSs adoption. In addition, the progress of such adoption is regularly reported to the Board.

As of December 31, 2012, all potential significant difference between IFRSs and current accounting policy had been identified. Full disclosure of the IFRSs main content and implementation status were included in the footnote of the 2011 annual consolidated financial statements and the 2012 interim and annual consolidated financial statements. Starting from 2013, HTC has prepared financial statements in accordance with IFRSs.

The Taiwan "National Health Insurance Act" was amended on January 26, 2011, to create an obligation to fund the health insurance scheme by paying an eonusxtra 2% "supplementary premium" (based on 2% of the total profit sharing and variable bonus) plus the basic premium charge. Such extra 2% "supplementary premium" will be incurred in connection with future payouts of profit sharing and variable bonus and increase the operation cost of the Company. HTC has studied the implications of this new amendment and has taken the necessary managerial precautionary steps with respect to such amendment.

(5) Effects on HTC finances of changes in technology and industry trends and response measures

Wireless telecommunications is an important growth sector within the IT industry and the smartphone is its flagship product. Responding to rapid mobile internet growth and communication technology migration to 3G/4G, HTC has leveraged outstanding R&D capabilities in partnerships with global telecom leaders to launch numerous "world firsts" that include the world's first Windows Mobile, Android, dual mode GSM/WiMAX, and LTE Android mobile phones. The launch of a diverse range of products through many carriers worldwide has built up HTC's significant position in the global telecommunications industry and created exceptional business opportunities. HTC will continue to use its resources to develop new technologies and enhance the holistic user experience in order to deliver products and services that fit market demand.

(6) Effect of changes in the company's corporate image on the company's crisis management protocol and mitigating measures

HTC maintains high professional ethics and effective control over its operations. Corporate honesty and ethics rules effectively bar all in the HTC organization from engaging in dishonest or unethical practices.

(7) Anticipated benefits / potential risks related to mergers and acquisitions and mitigating measures

Mergers and acquisitions in recent years have focused on raising overall product value and enriching the HTC user experience. All such activities have been funded internally. Future mergers and acquisitions will be conducted after careful consideration of expected benefits and in accordance with all relevant government laws and corporate regulations.

(8) Anticipated benefits / potential risks of HTC plant expansion plans and mitigating measures

In response to global market demand for smartphone devices, in addition to the continuous review and improvement of manufacturing processes to improve production capabilities, quality, and cost savings, HTC's Taipei headquarters was completed in June of 2012. In April of that year the new Taoyuan plant officially began mass production, in order to keep pace with market conditions and to take into account the growth of the talent pool, capacity expansion, and flexible production configurations.

(9) Concentration risks associated with goods received and sold and mitigating measures

Purchases:

The skills and capabilities of materials components suppliers are maturing in step with mobile phone technologies. Growing opportunities to source materials from multiple suppliers reduce the risk of overreliance on one or several suppliers. HTC also purchases in volume to reduce unit costs and optimize cost structures.

Sales:

HTC products are distributed across the Americas, Europe and Asia primarily through major carriers and local retail channels. The influence of carriers can be expected to rise in the new age of 3G/4G wireless standards, which is expected to benefit HTC product penetration. Apart from working with current customers to expand markets and strengthen strategic partnerships, HTC continues to discuss potential cooperative projects with leading IT and telecom companies in order to remain at the fore of market trends. HTC is also developing the HTC brand and strengthening relationships with channel retailers in order to reduce business and sales concentration risks.

(10) Effect upon and risk to the company in the event a major quantity of shares belonging to a director, supervisor, or shareholder holding greater than a 10 percent stake in the company has been transferred or otherwise changed hands and mitigating measures being or to be taken:

As of the printing of this annual report date, no transfer of significant portions of HTC share rights has occurred with respect to any director, supervisor, or major shareholder holding more than a 10 percent stake in the company.

(11) Effect upon and risk to the company associated with any change in governance personnel or top management and mitigating measures being or to be taken:

There was no change in HTC managerial control in 2011.

(12) Lawsuit

1. 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 to be 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, IPCom has filed motion for reconsideration on the two patents with the Appeal court. In December 2012, the district court has granted a stay on case currently in the US pending appeal decision.

   As of the date of the board of directors approval and authorization for issue of consolidated financial statements, there had been no critical hearing nor had a court decision been made, except for the above.

2. From March 2010 onwards, Apple Inc. ("Apple") and the Company filed patent infringement actions against the other respectively in the U.S. International Trade Commission ("ITC"), U.S. District Court for the District of Delaware, German district courts, and English High Court. On November 11, 2012, the two companies reached a global settlement that included the dismissal of all current lawsuits and a ten-year license agreement. The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalties payable as prescribed.

3. 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 the New York court to prevent the Company from exporting to and selling in United States devices made using Kodak's patents, as well as damage compensation, respectively. In January 2013, a U.S. bankruptcy judge presently approved the sale of 1,100 Kodak digital image patents including the patents-in-suit to a third party. All litigation procedures involving HTC have been stayed.

4. In May 2012, Nokia Corporation ("Nokia") filed a lawsuit against the Company, HTC America, Inc. and Exedea, Inc. ("the Company") concurrently with the ITC, Delaware court and the District Courts of Mannheim, Munich and Dusseldorf in Germany ("German courts"), alleging that the Company infringed its patents. Nokia requested the 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. The Company subsequently filed revocation actions against Nokia's asserted patents in the London High Court. The Company asserts 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.

On March 08, 2013, the District Court of Mannheim dismissed Nokia's infringement complaint against HTC, alleging that HTC infringed the German part of its EP0812120 (the `120 patent) and EP 1312974 (the `974 patent), the Company also believes that both `120 and `947 patents are invalid, and will continue with invalidity actions pending before the English Patents Court and German Federal Patents Court. The Company fully expects the patents to be revoked before any Nokia appeal proceedings take place.

On March 18, 2013, the District Court of Mannheim handed down a judgment that the Company had infringed the German part of its EP 0673175 (the `175 patent) entitled "Reduction of Power Consumption in a Mobile Station". However, the judgment only covers three handsets that the Company no longer imports into Germany (the Wildfire S, Desire S and Rhyme). HTC will be appealing the present decision but also believes that this patent is invalid and so will be continuing with the invalidity actions pending before the German Federal Patents Court and the English Patents Court. The Company's German business will not be affected by it.

On April 23, 2013, the District Court of Mannheim dismissed a complaint by Nokia that HTC had infringed the German part of patent EP 1 581 016 (the `016 patent) entitled "A Communication Network Terminal for Accessing Internet", and awarded the Company its legal costs. The Company believes that this patent is invalid and will be continuing with the invalidity actions pending before the German Federal Patents Court and the English Patents Court.

5. On the basis of its past experience and consultations with its legal counsel, the Company has evaluated the possible effects of the contingent lawsuits on its business and financial condition..

(13)Other important risks and mitigating measures being or to be taken

None.

(14) Risk Management Organization Structure

Responsible/Implementation Unit	Control Item	Implementation Tasks
Legal Department	Contractual and Legal Risk	Manage overall corporate contractual risk
Finance and Accounting Division	Business Strategy and Financial Risks	Responsible for capital allocation and management, investment planning, customer credit control, operational analysis, and cost analysis
Internal Audit	Internal Control Risk	Assess comprehensiveness and effectiveness of internal control systems
Global Product Division	Product Trend Risk	Identify future product development trends and customer demands
Design Quality & Engineering Service Division	Product Design and Quality Risks	Ensure design quality of HTC products with regard to hardware, software and product safety
Manufacturing Operation Center	Production Quality Risk	Enhance production quality
Customer Service and Quality Assurance Division	Product Quality Risk	Provide after-sales service and enhance the quality of such

7. OTHER IMPORTANT MATTERS

1. Certification Details of Employees Whose Jobs are Related to the Release of the Company's Financial Information

	Number of Employees	
Certification	Finance and Accounting Division	Internet Audit
Certified Public Accountants (CPA)	8	2
Internal Auditor	1	2
US Certified Public Accountants (US CPA)	3	1
Certified Internal Auditor (CIA)	-	2
Chartered Financial Analyst (CFA)	2	-
Financial Risk Manager (FRM)	1	-

CHAPTER 7

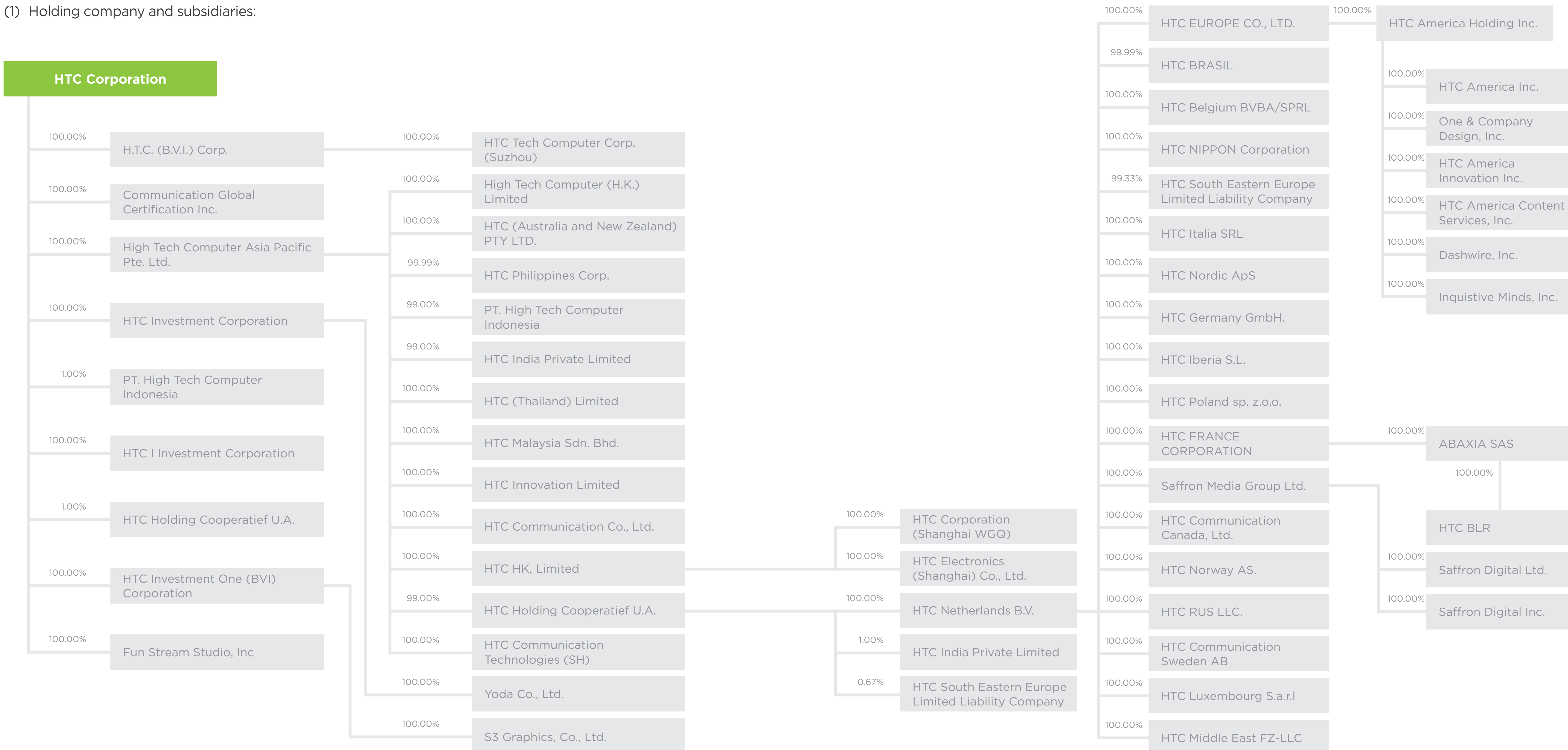
AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

1. AFFILIATES (as of 2012.12.31)

1. HTC Affiliated Companies Chart

(1) Holding company and subsidiaries:



(2) Mutually Invested Companies: None

AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

2. HTC Affiliated Companies

Amount in thousands

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investor:				
HTC Corporation	1997.05.15	No.23, Xinghua Rd., Taoyuan City, Taoyuan County 330, Taiwan, R.O.C.	NTD8,520,521	Principally engaged in the design, manufacture and marketing of PDA phones, smartphones and handheld devices, as well as the provision of related technologies and after services
Investee:				
H.T.C. (B.V.I.) Corp.	2000.08.01	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD3,568,885 (USD122,520)	International holdings
Communication Global Certification Inc.	1998.09.01	4F., No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD200,000	Import of controlled telecommunications radio frequency devices and information software services
High Tech Computer Asia Pacific Pte. Ltd.	2007.07.12	260 Orchard Road #07-04 Heeren, Singapore	NTD22,370,062 (SGD937,838)	Global investing activities, marketing, repair and after-sales services
HTC Investment Corporation	2008.07.24	1F., No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD300,000	General investing activities
HTC I Investment Corporation	2009.09.14	4F., No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD295,000	General investing activities
HTC Investment One (BVI) Corporation	2011.06.20	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD10,259,001 (USD352,192)	Holding S3 Graphics Co., Ltd. and general investing activities
FunStream Studio, Inc.	2003.04.22	4F., No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD2,000	Design, research and development of 3D technology
HTC Tech Computer Corp. (Suzhou)	2003.01.01	Suzhou Industrial Park, China	NTD582,580 (USD20,000)	Manufacturing and sale of smart handheld devices and electronic components
High Tech Computer (H.K.) Limited	2007.08.03	Unit 808-09A, 8th Floor, AIA Tower, 183 Electric Road, North Point, Hong Kong	NTD75,159 (HKD20,000)	Marketing, repair and after-sales services
HTC (Australia and New Zealand) PTY LTD.	2007.08.28	Suite 3002, Level 30, 100 Miller Street, North Sydney, Australia	NTD121,008 (AUD4,000)	Marketing, repair and after-sales services
HTC Philippines Corp.	2007.12.06	UNIT 32 3/F WORLDNET BUSINESS CENTER ZETA BLDG 191, SALCEDO ST LEGASPI VILLAGE, MAKATI CITY 1229	NTD6,089 (PHP8,588)	Marketing, repair and after-sales services
PT. High Tech Computer Indonesia	2007.12.03	PLAZA SEMANGGI 7th Floor, unit No. Z07-006 Kawasan Bisnis Granadha Jl. Jend. Sudirman Kav. 50 Jakarta -12930 Indonesia	NTD5,098 (IDR1,699,313)	Marketing, repair and after-sales services
HTC (Thailand) Limited	2007.11.06	No. 53 Sivayathorn Building, 14th Floor, Room No. 1401, Wittayu Road, Lumpini Sub-district, Patumwan District, Bangkok, Thailand	NTD23,806 (THB25,000)	Marketing, repair and after-sales services
HTC India Private Limited	2008.01.30	Unit No.4, Ground Floor, BPTP Park Centra, Sector 30, NH8, Gurgaon 12200, Haryana, India	NTD2,664 (IDR5,000)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investee:				
HTC Malaysia Sdn. Bhd.	2007.11.07	Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	NTD2,381 (MYR250)	Marketing, repair and after-sales services
HTC Innovation Limited	2009.01.30	4F, Seoul Finance Center. 84 Taepyung-ro 1-ka, Chung-ku, Seoul, 100-768 Korea	NTD1,365 (KOW50,000)	Marketing, repair and after-sales services
HTC Communication Co., Ltd.	2008.12.29	2F South, No.1000, Xinmiao Village, Kangqiao Town, Pudong New Area, Shanghai, China	NTD801,048 (USD27,500)	Sale of smart handheld devices and electronic components
HTC HK, Limited	2006.08.26	31/F THE CENTER 99 QUEEN'S ROAD CENTRAL HK	NTD4,025,828 (HKD1,071,283)	Global investing activities, marketing, repair and after-sales service
HTC Holding Cooperatief U.A.	2009.08.18	Orteliuslaan 850, 3528BB Utrecht	NTD14,612,474 (EUR380,295)	International holdings
HTC Communication Technologies (SH)	2011.08.01	Room 102, No.2, Boujun Road, Zhang Jiang Hi-Tech Park, Shanghai, China	NTD116,516 (USD4,000)	Design, research and development of application software
S3 Graphics Co, Ltd.	2001.01.03	P.O. Box 709 George Town Grand Cayman	NTD10,277,876 (USD352,840)	Design, research and development of graphics technology
Yoda Co., Ltd.	2012.09.24	4F., No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD20,000	Restaurants and parking lot business, and building cleaning services
HTC Corporation (Shanghai WGQ)	2007.07.09	6A, No.288, Hedan Rd., Waigaoqiao Free Trade Zone, Shanghai, China	NTD43,694 (USD1,500)	Repair and after-sales services
HTC Electronics (Shanghai) Co., Ltd.	2007.01.22	Room 123, No. 2502, Hunan Road, Kangqiao Industrial Zone, Nanhui District, Shanghai, China	NTD3,871,506 (USD132,909)	Manufacture and sale of smart handheld devices and electronic components
HTC Netherlands B.V.	2009.11.11	Orteliuslaan 850, 3528BB Utrecht	NTD13,407,803 (EUR348,943)	Global investing activities, marketing, repair and after-sales service
HTC EUROPE CO., LTD.	2003.07.09	Salamanca Wellington Street Slough Berkshire England SL1 1YP	NTD11,033,582 (GBP234,287)	Global investing activities, marketing, repair and after-sales service
HTC BRASIL	2006.10.25	Rua James Joule, No.92, Suite 82, 7th Floor, Edificio Plaza.1, in the City of Sao Paulo, State of Sao Paulo.	NTD28,268 (BRL1,987)	Marketing, repair and after-sales services
HTC Belgium BVBA/SPRL	2006.10.12	Henri van Heurckstraat 15, 2000 Antwerpen	NTD730 (EUR19)	Marketing, repair and after-sales services
HTC NIPPON Corporation	2006.03.22	13F, Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo Japan	NTD3,383 (JPY10,000)	Sale of smart handheld devices and electronic components
HTC FRANCE CORPORATION	2010.04.02	123 RUE DU CHATEAU 92100 BOULOHNE BILLANCOURT	NTD249,756 (EUR6,500)	Global investing activities, marketing, repair and after-sales service
HTC South Eastern Europe Limited Liability Company	2010.04.27	Kifissias 90, Marousi 15125, Athens, Greece	NTD173 (EUR4.5)	Marketing, repair and after-sales services
HTC Nordic ApS.	2010.07.01	A.P. Møllers Allé 9B, 2791 Dragør, Denmark	NTD423 (EUR11)	Marketing, repair and after-sales services
HTC Italia SRL	2007.02.19	Via Caterina Troiani 75 00144 Rome Italy	NTD384 (EUR10)	Marketing, repair and after-sales services
HTC Germany GmbH.	2010.09.06	Solmsstrasse 18, Gebäude E 60486 Frankfurt am Main Germany	NTD961 (EUR25)	Marketing, repair and after-sales services
HTC Iberia S.L.	2010.10.08	Avda. de la Industria 4, Natea Business Park, Edif 3. planta 3 D 28108 Alcobendas, Madrid Spain	NTD115 (EUR3)	Marketing, repair and after-sales services
HTC Poland sp. z o.o.	2010.09.01	ul. Post pu 21B 02-676 Warszawa Poland	NTD2,267 (EUR59)	Marketing, repair and after-sales services
Saffron Media Group Ltd.	2007.05.23	32-38 Saffron Hill, London EC1N 8FH	NTD76,999 GBP1,635)	International holdings
HTC Communication Canada, Ltd.	2011.01.25	2900-550 Burrard Street,Vancouver BC V6C 0A3, Canada	NTD43,694 (USD1,500)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investee:				
HTC Norway AS.	2011.08.25	Fjordveien 3, 1363 Høvik, Norway	NTD4,064 (NOK780)	Marketing, repair and after-sales services
HTC RUS LLC.	2011.06.28	12th Floor, office 1203, BC Pollars, block C, Derbenevskaya nab. 11, Moscow, 115114, Russian Federation	NTD11,652 (USD400)	Sale of smart handheld devices and electronic components
HTC Communication Sweden AB	2011.09.26	C/O Greeting Park Veneu, Engelbrektsgatan 9-11 114 32 STOCKHOLM	NTD4,465 (SEK1,000)	Marketing, repair and after-sales services
HTC Luxembourg S.a.r.l.	2011.05.31	9, Parc d' Activites Syrdall, L-5365, Luxembourg	NTD2,377,411 (EUR61,873)	Online/download media services
HTC Middle East FZ-LLC	2012.07.08	3701A&3704A, 37 Floor, Business Central Towers, Dubai, United Arab Emirates	NTD27,757 (AED3,500)	Marketing, repair and after-sales services
HTC America Holding Inc.	2010.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD6,790,727 (USD233,126)	International holdings
ABAXIA SAS	2003.02.19	40 rue Madeleine Michelis 92200 Neuilly sur Seine, France	NTD3,112 (EUR81)	Design, research and development of application software
HTC America Inc.	2003.01.06	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD524,322 (USD18,000)	Sale of smart handheld devices and electronic components
One & Company Design, Inc.	2003.10.04	2700 18th Street San Francisco, CA,USA, 94110	NTD1,049 (USD36)	Design, research and development of application software
HTC America Innovation Inc.	2010.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD87,387 (USD3,000)	Design, research and development of application software
HTC America Content Services, Inc.	2011.03.28	13920 SE Eastgate Way, Suite 400, Bellevue, WA 98005	NTD148,558 (USD5,100)	Online/download media services
Dashwire, Inc.	2006.08.11	936 N. 34th Street, Suite 200 Seattle, WA 98103	NTD3 (USD0.1)	Cloud Synchronization Technology design and management
Inquisitive Minds, Inc.	2008.12.04	655 W Evelyn Ave, Suite 3, Mountain View, CA94041	NTD0.029 (USD0.001)	Cross-platform multimedia computing and digital patent management
HTC BLR	2006.11.09	203-25 Ulitsa Yanki Kupaly Minsk, 220030, BELARUS	NTD146 (BYR42,820)	Design, research and development of application software
Saffron Digital Ltd.	91.02.11	32-38 Saffron Hill, London EC1N 8FH	NTD139,682 (GBP2,966)	Design, research and development of application software
Saffron Digital Inc.	98.12.04	Wilshire Boulevard, Suite 205, Beverly Hills, CA 90211	NTD22,138 (USD760)	Design, research and development of application software

(Concluded)

Note: Paid-in capital is translated at the exchange rates prevailing on 2012.12.31.

3. Common Shareholders of HTC and its Subsidiaries or its Affiliates with Actual Deemed Control: None.

4. Industries covered by the Businesses Operated by all Affiliates and Intra-firm Division of Labor:

(1) Industries covered by the businesses operated by all affiliates:

Principally engaged in the design, manufacture and marketing of PDA phones, smartphones and handheld devices, as well as the provision of related technologies and after-sales services.

(2) Division of labor among all affiliates:

The controlling company, HTC Corporation, is the primary R&D and manufacturing base and provider of technical resources. For its affiliates:

1. The primary business of H.T.C. (B.V.I.) Corp., HTC America Holding Inc., HTC Holding Cooperatief U.A. and Saffron Media Group Ltd. is international holdings.
2. Communication Global Certification Inc. engages in the import of controlled telecommunications radio frequency devices and information software services.
3. The primary business of HTC Investment Corporation and HTC I Investment Corporation is general investing activities.
4. High Tech Computer Corp. (Suzhou) and HTC Electronics (Shanghai) Co., Ltd. engage in the manufacture and sale of smart handheld devices and electronic components.
5. HTC Corporation (Shanghai WGQ) engages in repair and after-sales services.
6. ABAXIA SAS, HTC BLR, HTC America Innovation Inc., One & Company Design, Inc., Saffron Digital Inc., Saffron Digital Ltd., and HTC Communication Technologies (SH) engage in design, research and development of application software.
7. HTC America Inc., HTC Communication Co., Ltd. and HTC RUS LLC. engage in the sale of smart handheld devices and electronic components.
8. High Tech Computer Asia Pacific Pte. Ltd., HTC HK, Limited, and HTC Netherlands B.V. engage in global investing activities, marketing, repair and after-sales service.
9. HTC America Content Services, Inc. and HTC Luxembourg S.a.r.l. engage in online and download media services.
10. Dashwire, Inc. engages in design and management of cloud synchronization technology.
11. Inquisitive Minds, Inc. is mainly engaged in cross-platform multimedia computing and digital patent management
12. HTC Investment One (BVI) Corporation is mainly engaged in acquisitions and general investment for S3 Graphics Co., Ltd.
13. The primary business of S3 Graphics Co, Ltd. is design, research and development of graphics technology.
14. FunStream Studio, Inc. is mainly engaged in R&D of 3D technology.
15. Royal Rich Limited is mainly engaged in restaurant and parking lot business as well as building cleaning services.
16. The remaining companies engage in marketing, repair and after-sales services.

AFFILIATE INFORMATION AND OTHER SPECIAL NOTES 7

5. Information of Directors, Supervisors, and Presidents of HTC Affiliated Companies

Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
Investor:				
HTC Corporation	Chairperson	Cher Wang	32,272,427 shares	3.79%
	Director	Wen-Chi Chen	22,391,389 shares	2.63%
	Director	HT Cho	145,530 shares	0.02%
	Director	Tan Ho-Chen	-	-
	Director	David Bruce Yoffie	-	-
	Independent Director	Chen-Kuo Lin	-	-
	Independent Director	Josef Felder	133,985 shares	0.02%
	Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	43,819,290 shares	5.14%
	Supervisor	Huang-Chieh Chu	-	-
Investee:				
H.T.C. (B.V.I.) Corp.	Chairperson	HTC Corporation Representative: Cher Wang	1,221,451,760 shares	100.00%
Communication Global Certification Inc.	Chairperson	HTC Corporation Representative: Fred Liu	20,000,000 shares	100.00%
	Director	HTC Corporation Representative: David Chen, Simon Hsieh	20,000,000 shares	100.00%
	Supervisor	HTC Corporation Representative: James Chen	20,000,000 shares	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	Director	HTC Corporation Representative: Peter Chou, Fred Liu, Lim Tiong Beng	714,534,059 shares	100.00%
HTC Investment Corporation	Chairperson	HTC Corporation Representative: Peter Chou	30,000,000 shares	100.00%
	Director	HTC Corporation Representative: Fred Liu, Chialin Chang	30,000,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Edward Wang	30,000,000 shares	100.00%
HTC I Investment Corporation	Chairperson	HTC Corporation Representative: Peter Chou	29,500,000 shares	100.00%
	Director	HTC Corporation Representative: Fred Liu, Chialin Chang	29,500,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Edward Wang	29,500,000 shares	100.00%
HTC Investment One (BVI) Corporation	Director	HTC Corporation Representative: Cher Wang	340,646,246 shares	100.00%
FunStream Studio, Inc.	Chairperson	HTC Corporation Representative: Steve Wang	20,000 shares	100.00%
HTC Tech Computer Corp. (Suzhou)	Chairperson	H.T.C. (B.V.I.) Corp. Representative: Fred Liu	USD20,000 thousands	100.00%
High Tech Computer (H.K.) Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Chou	2,000,000 shares	100.00%
HTC (Australia and New Zealand) PTY LTD	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Lennard Hoornik, Edward Wang	400,000 shares	100.00%
HTC Philippines Corporation	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Chou, Fred Liu, Majorie L. Elic, Juancho S. Ong, Edgardo C. Abenis	858,765 shares	100.00%

(Continued)

Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
Investee:				
PT. High Tech Computer Indonesia	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Fred Liu	185,625 shares	99.00%
	Director	HTC Corporation Representative: Fred Liu	1,875 shares	1.00%
	Supervisor	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Chou	185,625 shares	99.00%
	Supervisor	HTC Corporation Representative: Peter Chou	1,875 shares	1.00%
HTC (Thailand) Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Fred Liu	10,000,000 shares	100.00%
HTC India Private Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Lennard Hoornik, Edward Wang	495,000 shares	99.00%
	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Lennard Hoornik, Edward Wang	5,000 shares	1.00%
HTC Malaysia Sdn. Bhd.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Lennard Hoornik, Edward Wang, Yeoh Cheng Lee, Abd Malik Bin A. Rahman	25,000 shares	100.00%
HTC Innovation Limited	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: Jack Tong	5,000 shares	100.00%
HTC Communication Co., Ltd.	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: Fred Liu	USD27,500 thousands	100.00%
HTC HK, Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Fred Liu, Abraxas Limited	1,071,283,030 shares	100.00%
HTC Holding Cooperatief U.A.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Chialin Chang, J. J. van Ginkel	EUR 380,295 thousands	99.00%
	Director	HTC Corporation Representative: Chialin Chang, J. J. van Ginkel	EUR 0.28 thousands	1.00%
HTC Communication Technologies (SH)	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: David Chen	USD 4,000 thousands	100.00%
S3 Graphics Co, Ltd.	Director	HTC Investment One (BVI) Corporation Representative: Peter Chou, Fred Liu, Grace Lei	386,338,516 shares	100.00%
Yoda Co., Ltd.	Chairperson	HTC Investment Corporation Representative: James Chen	20,000 thousands	100.00%
HTC Corporation (Shanghai WGQ)	Executive Director	HTC HK, Limited Representative: Fred Liu	USD1,500 thousands	100.00%
HTC Electronics (Shanghai) Co., Ltd.	Chairperson	HTC HK, Limited Representative: CS Wang	USD132,909 thousands	100.00%
HTC Netherlands B.V.	Representative	HTC Holding Cooperatief U.A.	348,942,560 shares	100.00%
HTC EUROPE CO. LTD.	Director	HTC Netherlands B.V. Representative: Peter Chou, Fred Liu	234,286,633 shares	100.00%
HTC BRASIL	Representative	HTC Netherlands B.V.	1,987,399 shares	99.99%
	Representative	HTC Cooperatief U.A.	1 shares	0.01%
HTC Belgium BVBA/SPRL	Director	HTC Netherlands B.V. Representative: Fred Liu, Edward Wang, Equity TMF Management	18,549 shares	100.00%
HTC NIPPON Corporation	Director	HTC Netherlands B.V. Representative: Fred Liu	1,000 shares	100.00%
HTC FRANCE CORPORATION	President	HTC Netherlands B.V. Representative: Florian Seiche	6,500,000 shares	100.00%
HTC South Eastern Europe	Administrator	HTC Netherlands B.V. Representative: Florian Seiche	149 shares	99.33%

(Continued)

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
Investee:				
Limited Liability Company	Administrator	HTC Holding Cooperatief U.A. Representative: Florian Seiche	1 shares	0.67%
HTC Nordic ApS	Director	HTC Netherlands B.V. Representative: Florian Seiche, Edward Wang	80,000 shares	100.00%
HTC Italia SRL	Director	HTC Netherlands B.V. Representative: Florian Seiche	EUR10 thousands	100.00%
HTC Germany GmbH	Director	HTC Netherlands B.V. Representative: Florian Seiche	25,000 shares	100.00%
HTC Iberia S.L.U.	Director	HTC Netherlands B.V. Representative: Florian Seiche, Edward Wang	3,006 shares	100.00%
HTC Poland sp z o.o.	Director	HTC Netherlands B.V. Representative: Florian Seiche, Edward Wang	4,687 shares	100.00%
Saffron Media Group Ltd.	Director	HTC Netherlands B.V. Representative: Chialin Chang, Phil Chen	1,634,870,016 shares	100.00%
HTC Communication Canada, Ltd.	Director	HTC Netherlands B.V. Representative: Jason Mackenzie, Edward Wang	500,000 shares	100.00%
HTC Norway AS.	Director	HTC Netherlands B.V. Representative: Florian Seiche, Edward Wang	780,000 shares	100.00%
HTC RUS LLC.	Director	HTC Netherlands B.V. Representative: Florian Seiche, Edward Wang	USD400 thousands	100.00%
HTC Communication Sweden AB	Director	HTC Netherlands B.V. Representative: Florian Seiche, Edward Wang	1,000,000 shares	100.00%
HTC Luxembourg S.a.r.l.	Director	HTC Netherlands B.V. Representative: Chialin Chang, Martinus Cornelis, Johannes Weijermans	12,500 shares	100.00%
HTC Middle East FZ-LLC	Director	HTC Netherlands B.V. Representative: Florian Seiche, Edward Wang	3,500 shares	100.00%
HTC America Holding, Inc.	Director	HTC EUROPE CO. LTD Representative: Chialin Chang	233,126,381 shares	100.00%
ABAXIA SAS	President	HTC FRANCE CORPORATION Representative: Cedric Mangaud	805,716 shares	100.00%
HTC America, Inc.	Director	HTC America Holding, Inc. Representative: Peter Chou, Fred Liu	1,000 shares	100.00%
One & Company Design, Inc.	Director	HTC America Holding, Inc. Representative: Edward Wang, Scott Croyle	60,000 shares	100.00%
HTC America Innovation, Inc.	Director	HTC America Holding, Inc. Representative: James Chen	1,000 shares	100.00%
HTC America Content Services, Inc.	Director	HTC America Holding, Inc. Representative: Chialin Chang	1,000 shares	100.00%
Dashwire, Inc.	Director	HTC America Holding, Inc. Representative: Chialin Chang	100 shares	100.00%
Inquisitive Minds, Inc.	Director	HTC America Holding, Inc. Representative: Chialin Chang	100 shares	100.00%
HTC BLR	Director	ABAXIA SAS Representative: Ongan Mordeniz	BYR 42,820 thousands	100.00%
Saffron Digital Ltd.	Director	Saffron Media Group Ltd. Representative: Chialin Chang, Phil Chen	296,638,744 shares	100.00%
Saffron Digital Inc.	Director	Saffron Media Group Ltd. Representative: Chialin Chang, Phil Chen	76,000 shares	100.00%

(Concluded)

6. Operational Highlights of HTC Affiliated Companies

Unit: NT$ thousands

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
Investor:								
HTC Corporation	$8,520,521	$199,186,738	$118,817,523	$80,369,215	$270,701,687	$14,762,895	$16,780,968	$20.17
Investee:								
H.T.C. (B.V.I.) Corp.	3,568,885	2,853,189	-	2,853,189	28,095	27,952	(1,129,506)	(1.14)
Communication Global Certification Inc.	200,000	447,385	57,157	390,228	300,320	125,554	100,631	5.03
High Tech Computer Asia Pacific Pte. Ltd.	22,370,062	28,934,115	133,118	28,800,997	3,783,945	2,737,708	2,779,241	4.03
HTC Investment Corporation	300,000	304,043	154	303,889	3,890	3,704	3,566	0.12
HTC I Investment Corporation	295,000	300,244	138	300,106	5,356	5,162	4,939	0.17
HTC Investment One (BVI) Corporation	10,259,001	9,072,020	1	9,072,019	-	(1,132,212)	(1,131,840)	(3.42)
FunStream Studio, Inc.	2,000	144	114	30	76	(43)	(43)	(0.22)
HTC Tech Computer Corp. (Suzhou)	582,580	694,686	720	693,966	2,789	(6,802)	11,666	-
High Tech Computer (H.K.) Limited	75,159	96,078	-	96,078	-	-	-	-
HTC (Australia and New Zealand) PTY LTD.	121,008	331,732	120,836	210,896	900,090	42,666	32,752	81.88
HTC Philippines Corporation	6,089	6,716	-	6,716	-	-	-	-
PT. High Tech Computer Indonesia	5,098	127,620	113,195	14,425	285,522	13,531	10,093	53.69
HTC (Thailand) Limited	23,806	67,167	27,337	39,830	151,283	7,063	5,540	0.55
HTC India Private Limited	2,664	210,581	171,269	39,312	554,743	26,516	12,310	24.62
HTC Malaysia Sdn. Bhd.	2,381	47,393	31,430	15,963	151,065	7,157	974	38.96
HTC Innovation Limited	1,365	15,921	624	15,297	29,351	1,398	(3,688)	(737.60)
HTC Communication Co., Ltd.	801,048	14,493,973	12,296,783	2,197,190	53,421,137	1,673,357	1,308,931	-
HTC HK, Limited	4,025,828	7,479,077	137,303	7,341,774	985,694	619,034	618,561	0.61
HTC Holding Cooperatief U.A.	14,612,474	17,969,296	1,038	17,968,258	655,704	654,645	659,951	-
HTC Communication Technologies (SH)	116,516	345,584	184,602	160,982	690,573	97,989	86,749	-
S3 Graphics Co, Ltd.	10,277,876	7,555,334	-	7,555,334	-	(1,128,245)	(1,128,245)	(2.92)
Yoda Co., Ltd.	20,000	20,009	37	19,972	-	(37)	(28)	-
HTC Corporation (Shanghai WGQ)	43,694	117,523	44,232	73,291	267,730	12,706	8,880	-
HTC Electronics (Shanghai) Co., Ltd.	3,871,506	9,405,901	2,330,848	7,075,053	14,395,115	560,438	593,589	-
HTC Netherlands B.V.	13,407,803	17,995,337	26,252	17,969,085	841,052	646,825	661,355	1.97
HTC EUROPE CO., LTD.	11,033,582	15,975,447	1,771,963	14,203,484	5,006,430	343,550	859,441	3.67
HTC BRASIL	28,268	39,315	12,619	26,696	112,246	6,680	2,203	1.11
HTC Belgium BVBA/SPRL	730	140,247	18,542	121,705	390,436	18,592	15,695	846.09
HTC NIPPON Corporation	3,383	3,637,394	3,595,215	42,179	4,880,397	59,877	34,211	34,211.00
HTC FRANCE CORPORATION	249,756	316,921	266,729	50,192	222,291	10,585	3,871	0.60
HTC South Eastern Europe Limited Liability Company	173	21,149	15,064	6,085	43,545	3,448	3,475	23,166.67

(Continued)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
Investee:								
HTC Nordic ApS.	$423	$85,842	$52,433	$33,409	$175,366	$12,818	$8,773	$109.66
HTC Italia SRL	384	30,236	27,764	2,472	81,813	3,896	(1,624)	-
HTC Germany GmbH.	961	116,779	56,852	59,927	229,448	21,730	13,845	553.80
HTC Iberia S.L.	115	39,635	17,941	21,694	78,890	4,832	3,288	1,096
HTC Poland sp. z o.o.	2,267	7,764	6,033	1,731	31,682	1,509	(79)	(16.81)
Saffron Media Group Ltd.	76,999	166,182	765	165,417	4,233	(1,425)	28,369	0.02
HTC Communication Canada, Ltd.	43,694	104,599	51,305	53,294	282,466	13,451	9,386	18.77
HTC Norway AS.	4,064	7,239	2,723	4,516	14,392	685	344	0.44
HTC RUS LLC.	11,652	9,446	549	8,897	-	(857)	(857)	-
HTC Communication Sweden AB	4,465	12,803	7,599	5,204	24,242	1,154	699	0.70
HTC Luxembourg S.a.r.l.	2,377,411	1,945,001	11,543	1,933,458	-	(205,362)	(222,527)	(17,802.16)
HTC Middle East FZ-LLC	27,757	141,085	112,347	28,738	135,181	1,613	982	280.57
HTC America Holding Inc.	6,790,727	7,936,076	210,374	7,725,702	1,444,734	1,164,160	(277,938)	(0.82)
ABAXIA SAS	3,112	99,229	50,783	48,446	274,673	15,586	2,171	2.69
HTC America Inc.	524,322	14,630,623	12,907,283	1,723,340	59,751,848	1,106,186	579,511	579,511.00
One & Company Design, Inc.	1,049	108,365	41,895	66,470	198,976	11,263	13,384	223.07
HTC America Innovation Inc.	87,387	688,901	403,206	285,695	1,664,626	94,017	128,203	128,203.00
HTC America Content Services, Inc.	148,558	60,561	105,283	(44,722)	16,082	(139,603)	(140,045)	(140,045.00)
Dashwire, Inc.	0	27,709	43,990	(16,281)	75,519	(67,175)	(67,868)	(678,680.00)
Inquisitive Minds, Inc.	0.029	16,313	10,433	5,880	22,101	(100,036)	(100,168)	(1,001,680.00)
HTC BLR	146	10,092	10,567	(475)	72,513	(5,872)	(8,520)	-
Saffron Digital Ltd.	139,682	250,413	92,574	157,839	601,434	(4,665)	(6,942)	(0.02)
Saffron Digital Inc.	22,138	52,417	29,876	22,541	98,383	7,000	8,975	118.09

Note: Authorized capital and the balance sheet foreign exchange rate is based on the exchange rate on the balance sheet date. The foreign exchange rate for the income statement is based on the weighted average exchange rate for the given period.

- Consolidated Financial Statements of HTC Affiliated Companies
  Pursuant to the "Regulations Governing Preparation of Consolidated Business Reports Covering Affiliated Enterprises, Consolidated Financial Statements Covering Affiliated Enterprises, and Reports on Affiliations" and to Letter No. Taiwan- Finance-Securities-04448 of the Securities and Futures Commission, Ministry of Finance, HTC shall prepare the affiliates' consolidated financial statements and issue the declaration of Attachment 1 of that Letter. That declaration has already been issued by HTC and placed on page 1 of the affiliates' financial statement; please refer to it there.

- Affiliates Report
  There were no circumstances requiring preparation of an Affiliates Report.

2. PRIVATE PLACEMENT SECURITIES IN 2012 AND AS OF THE DATE OF THIS ANNUAL REPORT:

None.

3. STATUS OF HTC COMMON SHARES AND GDRS ACQUIRED, DISPOSED OF, AND HELD BY SUBSIDIARIES IN 2012 AS OF THE DATE OF THIS ANNUAL REPORT:

None.

4. ANY EVENTS IN 2012 AS OF THE DATE OF THIS ANNUAL REPORT: THAT HAD SIGNIFICANT IMPACTS ON SHAREHOLDERS' RIGHT OR SECURITY PRICES AS STATED IN ITEM 2 PARAGRAPH 2 OF ARTICLE 36 OF SECURITIES AND EXCHANGE LAW OF TAIWAN:

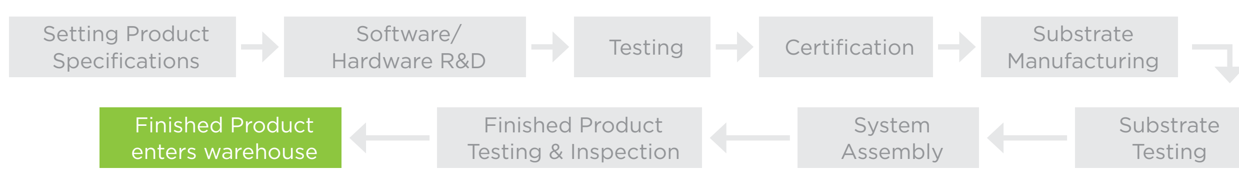
None.

5. OTHER NECESSARY SUPPLEMENT:

1. Key Functionalities and Manufacturing Processes for Primary Product Lines:

HTC's primary products are converged devices designed on Android® and Windows Phone® operating systems (OS). HTC products support voice communication, mobile Internet, multimedia, global positioning service (GPS), personal data assistant (PDA), e-mail, instant data search, financial transaction services and other mobile digital services.

The workflow for handheld devices, from R&D through production, is as follows:



2. Environmental Protection Expenditures

HTC Corporation manufactures smartphone. With regard to production processes, airborne pollutants are generated only during soldering and solid wastes at various production stages. HTC's production processes do not generate no wastewater.

HTC places a high priority on effectively managing wastes generated by operations and consistently allocates significant funds to install and maintain pollution prevention facilities and retain professional staff. HTC provides offsite training for staff to earn licenses needed to operate pollution control equipment. HTC further implements internal training programs and conducts audits to ensure relevant pollution control mechanisms operate properly and effectively. HTC regularly contracts independent licensed inspectors to review its operational environment. Audit and inspections of HTC facilities conducted since HTC was founded confirmed that company operations comply with relevant government rules and regulations.

HTC is certified OHSAS18001:2007 occupational health and safety management system, ISO 14001:2004 environmental management, ISO 14064-1:2006 greenhouse gas emission standards and ISO50001:2011 energy management standard. Certification-mandated procedures and requirements further reduce HTC pollution emissions and energy consumption and move us forward toward clean production objectives.

(1) Losses (including financial compensation) and fines due to pollution incidents from the start of the most recent fiscal year and as of the date of this annual report:

HTC has not been fined or penalized for pollution by environmental authorities.

(2) Future strategies (inclusive of environmental protection facility improvements) and possible expenditures:

a. Continue to strengthen operations management in order to comply with government rules and regulations and reduce accidents, errors and other abnormalities;

b. Strengthen waste collection and recycling efforts. Encourage resource reuse as part of the effort to achieve waste reduction targets;

c. Continue promoting ISO 14001 environmental management, ISO 14064-1 technical and administrative measures and ISO50001 energy management standard to maximize clean production benefits.

d. Major planned environmental expenditures over the next 2 years include:

Unit: NT$ thousands

Fiscal Year / Item	Anticipated Equipment Purchases / Expenditures	Anticipated Benefits	Expenditures (estimated)
2013	1. Energy efficient lighting system 2. Water conservation facilities 3. Energy efficient air conditioning equipment 4. Inverters for elevators & air compressors 5. Water / power conservation promotion activities 6. Rainwater collection pond construction 7. Water / power conservation promotion activities 8. Garbage reduction promotion activities 9. Campus greening efforts	1. Reduce energy consumption 2. Conserve water resources 3. Reduce energy consumption 4. Reduce energy consumption 5. Promote general waste reduction & recycling 6. Reduce energy consumption 7. Conserve water resources 8. Reduce waste volumes 9. Reduce energy consumption	125,700
2014	1. Headquarter campus greenification 2. Energy efficient air conditioning equipment 3. System to supply recycled wastewater as landscaping & toilet flush water 4. Oil-water separator system construction 5. Water / power conservation promotion activities 6. Garbage reduction promotion activities 7. Energy efficient lighting system	1. Reduce energy consumption 2. Reduce energy consumption 3. Promote general waste reduction & recycling 4. Reduce environmental loading 5. Pantry, washroom, and bathroom efficient water saving utilities 6. Recycle, separate type of garbage 7. Reduce energy consumption	105,000
2015	1. Energy efficient lighting system 2. Pantry, washroom, and bathroom efficient water saving utilities 3. Inverters for elevators & air compressors 4. Water / power conservation promotion activities 5. Energy efficient air conditioning equipment 6. System to supply recycled wastewater 7. Water / power conservation promotion activities	1. Reduce energy consumption 2. Pantry, washroom, and bathroom efficient water saving utilities 3. Inverters for elevators & air compressors 4. Conserve water resources 5. Energy efficient air conditioning equipment 6. Conserve water resources 7. Rainwater collection pond construction	93,000

(3) Environmental Protection and Employee Health & Safety Measures

Environmental Protection:

HTC is committed to operating healthy and safe work environments. HTC adheres to all local environmental protection regulations. Cardboard boxes, containers and plastic packaging material are collected and separated for recycling. HTC requires suppliers to comply with EU WEEE and RoHS environmental requirements in order to reduce industrial waste, prevent pollution, and offer consumers products that reflect HTC's low environmental impact commitment.

HTC is committed to environmental responsibility, HTC monitors its greenhouse gas sources and emissions in compliance with ISO 14064-1 standards. HTC also follows ISO 50001 energy management standards to promote effective energy management, and to achieve long-run sustainability and competitiveness.

Associated procedures include:

a. Track greenhouse gas emission to monitor type and amount of energy resources currently being used. Use data to draft action plan for energy conservation;

b. Recertification of greenhouse gas records conducted by licensed, independent certification agency annually (certificate issued);

c. Voluntarily release annual greehouse gas emissions data to the public through the Taiwan Environmental Protection Administration's National GHG Emissions Registry and relevant international non-profit organizations.

Employee Health and Safety (H&S):

HTC updates its safety and health management plan on an annual basis to reflect current H&S management conditions. This plan represents HTC's primary line of defense against accidents in the workplace. Main categories of HTC's H&S measures include ensuring adherence to all mandated H&S regulations, reducing risk, and effective management of dangerous and hazardous materials. HTC is certified under OHSAS18001. New employees receive health and safety education training related to HTC's work environment and production processes. HTC also holds regular fire safety drills to ensure all employees are with familiar fire prevention and suppression facilities and equipment.

Reconizing employees' well-being, HTC focuses its effort on employee healthcare, health enhancement, health management and employee assistance programs. HTC aims to offer all employees a high quality menu of health service items including regular health checkups, programs / activities, health-related seminars, group management for specific health problems, and psychological counseling.

(4) Green Product Research and Development

Environmental "green" design procedures have been enforced at HTC since 2000. These procedures address the complete product lifecycle - from design and production through consumer use and end-of-life disposal. HTC seeks to identify and find opportunities to minimize the environmental impacts of its products. Use of lead, cadmium, mercury, hexavalent chromium and other hazardous materials is minimized or eliminated. Designers also work to increase the recoverability of materials at end-of-life and the utilization of recycled materials in products in order to reduce overall environmental impact. HTC develops its green products within the framework of minimal use of toxic materials, frugal use of input resources and maximum materials recyclability. As such, our products meet strict environmental regulations enforced in our markets and satisfy customer expectations and needs. All these enhance HTC's competitiveness and helping realize long-term sustainability for our operations and business.

3. Labor Relations Management

HTC offers employees opportunities to develop professional skills and knowledge; sharpen proactive and positive attitudes toward professional responsibilities; internalize serious and responsible work values; adopt honest and forthright work habits and pursue excellence in all tasks and responsibilities in order to create an exceptional work environment. We provide our employees with engaging challenges as well as skills / knowledge of value to their career growth. We firmly believe that a positive, energetic work environment boost morale and innovation.

(1) Employee Recruitment

Hiring and retaining exceptional employees is a key objective of HTC's human resources strategy. We are an equal opportunity employer and recognize the practical benefits that employee diversity brings to HTC's corporate culture and to our innovative spirits. HTC hires new employees through open selection procedures, with candidates offered positions based on merit. We permit no discrimination based on ethnicity, skin color, social status, language, religion, political affiliation, country / region of origin, gender, sexual orientation, marital status, appearance, disability, professional association membership or other similar considerations not relevant to job performance. HTC works through cooperative programs with universities, internship programs and summer work programs to provide work opportunities to a large number of students each year. We participate actively in job fairs and recruitment events in Taiwan and abroad as part of our ongoing and organized effort to seek out the best talent available.

(2) Employee Development

HTC sponsors regular seminars and workshops as part of its development initiatives. Globally recognized experts share insights into market trends, the latest technologies and technology trends. Such knowledge, together with HTC's brand value, cultural and artistic sensibilities, help HTC staff evaluate and tailor new technologies to market needs and opportunities. These activities also further enhance staff aesthetic sensibilities, helping HTC staff give each new HTC product an optimal balance between the practical and the emotive. Seminar and workshop programs are critical to HTC staff and organizational growth and important facets of both our competitiveness and commitment to employees.

HTC is committed to its employees' professional growth. In addition to aggressively recruiting new talent, we maintain a comprehensive curricula covering professional, managerial and personal development as well as language courses and training for new employees. These programs help staff acclimate quickly to HTC's corporate culture and acquire essential knowledge and skills. We've introduced e-Learning and Mobile Learning platforms to make learning more convenient and flexible. Further, we offer staff learning roadmap planning, professional study scholarships and subsidies for offsite learning. In 2012, total training related expenditure were NT$22 million and training hours were 286,272 hours.

(3) Employee Benefits and Employee Satisfaction

HTC's work environment is geared to challenge, stimulate and fulfill our employees. We maintain various outreach initiatives designed to motivate employees, enhance employee benefits and facilitate greater dialogue between the company and its workforce.

Comprehensive Employee Benefits

HTC provides coverage of its employees under both the National Labor and National Health Insurance programs, and it provides employees with annual vacation travel allowance, regular physical examinations, regular departmental lunches, cash bonuses for Taiwan's three main annual festivals, cash for weddings / funerals, subsidies for club activities, library, book store coupons, and access to employee exercise facilities and various exercise classes.

Open and Responsive Lines of Communication

HTC operates an internal system to receive employee complaints. This system includes a hotline, mailbox, and e-mail address dedicated to receiving employee complaints and suggestions as well as a regularly convened joint labor-management committee. HTC regularly canvasses employee opinions. Results are made available to executives and managers and used to measure changes in employee satisfaction and commitment.

Regular Activities and Events

HTC holds regular sports rallies, family days, athletic competitions and artistic / literary contests to increase opportunities for employees to enjoy informal interactions outside of their regular work.

Employee Awards

On the basis of profit sharing and talent retention concept, HTC implements incentive and retention program. HTC rewards individual employees who submit proposals for practical improvements or earn patent awards. HTC also provides cash awards for the best entries in an annual competition designed to solicit quality improvement ideas.

(4) Employee Retention

Specialist Retention Plan: Incentives are offered to employees with special and critical skills to keep them with the company and ensure they benefit from the results of their efforts.

Long Service Awards: Awards are presented at a company-wide ceremony that recognize employees who have provided with 5-year, 10-year and 15-year of services.

Internal Transfer Assistance: In order to help enhance employees' professional experience and career planning, HTC provides assistance to facilitate employee transfers within the company.

(5) Compensation and Retirement Benefits

HTC employees earn market-competitive salaries that take into consideration academic background, work experience, seniority and current professional responsibilities / position level. The amount of annual employee performance bonuses is proposed by the president and approved by the board of directors based on current year business performance. Employee profit sharing bonuses are also allocated to employees each year based on motions from the board of directors that are adopted by resolutions at annual shareholders' meetings. Both bonuses are allocated based on work performance and relative level of contribution in order to motivate employees effectively.

HTC's retirement policy has been in place, as required by law, since the company was founded. Starting in November 1999, HTC began to contribute an amount equal to 2 percent of each employee's salary into his / her individual corporate retirement fund. This system was replaced in 2004 when HTC began contributing an amount equal to 8 percent of each employee's salary into a general labor retirement fund managed by a labor retirement fund supervisory board. With the enactment of the new retirement system on 1 July 2005, employees hired under the previous retirement scheme who opted not to switch to the new retirement system were permitted, with supervisory approval, to adjust the current 8 percent contribution downward to 2 percent.

(6) Labor Negotiations and Measures to Protect Employee Rights

HTC is committed to fostering an atmosphere of trust in its labor relations and places great importance on internal communications. Labor relations meetings are convened once every two months (at least 6 regular meetings per year), with labor represented by six elected employee representatives. Meeting minutes are kept to ensure follow-on action and track results. HTC further offers employees various channels through which to submit opinions, suggestions and complaints, which may be delivered via a telephone hotline, e-mail address or physical mail as well as made known through HTC's regular employee opinion surveys.

During the most recent fiscal year and as of the printing date of this annual report, labor relations management have been harmonious with no losses resulting from labor-management conflicts; and no loss of this type is expected in the future.

AFFILIATE INFORMATION AND OTHER SPECIAL NOTES
7

CHAPTER 8

FINANCIAL INFORMATION

1. ABBREVIATED BALANCE SHEETS AND INCOME STATEMENTS FOR THE PAST FIVE FISCAL YEARS

(1) Abbreviated Balance Sheets

Unit：NT$ thousands

Item		Year 2012	2011	2010	2009	2008
Current Assets		122,271,142	180,204,464	156,875,067	101,470,633	101,238,950
Long-term Investments		42,652,154	37,777,785	10,708,420	6,506,194	5,160,891
Properties		19,935,586	15,422,345	10,941,230	8,314,177	7,375,651
Intangible Assets		1,625,340	2,120,948	208,581	-	-
Other Assets		12,702,516	12,585,381	5,317,155	3,330,938	1,450,870
Total Assets		199,186,738	248,110,923	184,050,453	119,621,942	115,226,362
Current Liabilities	Before Appropriation	118,817,523	146,683,699	109,335,331	53,980,282	54,558,470
	After Appropriation	*	179,932,784	139,226,420	74,102,614	74,684,104
Long-term Liabilities		-	-	-	-	-
Other Liabilities		-	628	628	1,210	6,406
Total Liabilities	Before Appropriation	118,817,523	146,684,327	109,335,959	53,981,492	54,564,876
	After Appropriation	*	179,933,412	139,227,048	74,103,824	74,690,510
Capital stock		8,520,521	8,520,521	8,176,532	7,889,358	7,553,938
Capital surplus		16,619,594	16,619,594	10,820,744	9,099,923	4,417,534
Retained Earnings	Before Appropriation	70,148,728	86,616,845	63,150,566	48,637,773	52,036,321
	After Appropriation	*	53,367,760	32,855,543	28,128,473	31,537,990
Unrealized Loss On Financial Instruments		203,768	2,939	(885)	(1,658)	(1,632)
Cumulative Translation Adjustments		(1,057,559)	32,134	(579,849)	15,088	65,602
Net Loss Not Recognized As Pension Cost		(347)	(293)	(121)	(34)	-
Treasury Stock		(14,065,490)	(10,365,144)	(6,852,493)	-	(3,410,277)
Total Stockholders' Equity	Before Appropriation	80,369,215	101,426,596	74,714,494	65,640,450	60,661,486
	After Appropriation	*	68,177,511	44,823,405	45,518,118	40,535,852

*Subject to change after shareholders' meeting resolution.

(2) Abbreviated Consolidated Balance Sheets

1. ROC GAAP

Unit：NT$ thousands

Item		Year 2012	2011	2010	2009	2008
Current Assets		139,658,980	192,859,891	168,606,486	104,867,841	104,223,660
Long-term Investments		10,197,272	3,685,262	1,232,145	810,485	541,437
Properties		25,651,292	21,512,478	14,024,329	9,899,808	8,916,350
Intangible Assets		11,520,674	22,560,788	935,650	240,482	289,783
Other Assets		19,575,908	15,178,544	5,583,134	3,610,401	1,771,180
Total Assets		206,604,126	255,796,963	190,381,744	119,429,017	115,742,410
Current Liabilities	Before Appropriation	126,174,912	153,334,697	115,641,103	53,728,775	54,998,933
	After Appropriation	*	186,583,782	145,532,192	73,851,107	75,124,567
Long-term Liabilities		-	-	12,188	24,375	46,875
Other Liabilities		59,999	42,946	13,959	1,210	6,420
Total Liabilities	Before Appropriation	126,234,911	153,377,643	115,667,250	53,754,360	55,052,228
	After Appropriation	*	186,626,728	145,558,339	73,876,692	75,177,862
Capital stock		8,520,521	8,520,521	8,176,532	7,889,358	7,553,938
Capital surplus		16,619,594	16,619,594	10,820,744	9,099,923	4,417,534
Retained Earnings	Before Appropriation	70,148,728	86,616,845	63,150,566	48,637,773	52,036,321
	After Appropriation	*	53,367,760	32,855,543	28,128,473	31,537,990
Unrealized Loss On Financial Instruments		203,768	2,939	(885)	(1,658)	(1,632)
Cumulative Translation Adjustments		(1,057,559)	32,134	(579,849)	15,088	65,602
Net Loss Not Recognized As Pension Cost		(347)	(293)	(121)	(34)	-
Treasury Stock		(14,065,490)	(10,365,144)	(6,852,493)	-	(3,410,277)
Equity Attribute To The Stockholders Of The Parent		80,369,215	101,426,596	74,714,494	65,640,450	60,661,486
Minority Interest		-	992,724	-	34,207	28,696
Total Stockholders' Equity	Before Appropriation	80,369,215	102,419,320	74,714,494	65,674,657	60,690,182
	After Appropriation	*	69,170,235	44,823,405	45,552,325	40,564,548

*Subject to change after shareholders' meeting resolution.

2. IFRS

Unit：NT$ thousands

Item		As of 2013.3.31
Current Asset		133,045,634
Properties		25,840,345
Intangible Assets		11,677,252
Other Assets		33,589,387
Total Assets		204,152,618
Current Liabilities	Before Appropriation	122,795,507
	After Appropriation	*
Non-Current Liabilities		418,183
Total Liabilities	Before Appropriation	123,213,690
	After Appropriation	*
Equity Attribute to The Shareholders Of The Parents		80,938,928
Capital Stock		8,520,521
Capital surplus		16,601,557
Retained Earnings	Before Appropriation	70,187,157
	After Appropriation	*
Other Equity		(304,817)
Treasury Stock		(14,065,490)
Non-Controlling Interest		-
Total Stockholders' Equity	Before Appropriation	80,938,928
	After Appropriation	*

*Subject to change after shareholders' meeting resolution

(3) Abbreviated Income Statements

NT$ thousands (Except EPS:NT$)

Item	Year				
	2012	2011	2010	2009	2008
Revenues	270,701,687	455,079,186	275,046,954	144,880,715	152,558,766
Gross Profit (Note 1)	56,989,072	119,754,046	79,556,972	45,862,483	50,641,854
Operating Income (Note 1)	14,762,895	64,860,542	42,295,343	24,174,994	30,256,385
Non-operating Income and Gains (Note 1)	2,317,531	5,060,293	2,536,080	1,623,362	2,300,018
Non-operating Expenses and Losses (Note 1)	155,323	71,164	340,114	585,892	965,924
Income from Continuing Operations before Income Tax	16,925,103	69,849,671	44,491,309	25,212,464	31,590,479
Income from Continuing Operations	16,780,968	61,975,796	39,533,600	22,608,902	28,635,349
Income (Loss) from Discontinued Operations					
Income (Loss) from Extraordinary Items					
Cumulative Effect of Changes in Accounting Principle					
Net Income	16,780,968	61,975,796	39,533,600	22,608,902	28,635,349
Basic Earnings Per Share	20.17	73.32	46.18	26.04	32.80

(4) Abbreviated Consolidated Income Statements

1. ROC GAAP

NT$ thousands (Except EPS:NT$)

Item	Year				
	2012	2011	2010	2009	2008
Revenues	289,020,175	465,794,773	278,761,244	144,492,518	152,353,176
Gross Profit (Note 1)	72,925,077	131,797,527	83,868,739	46,162,981	50,990,638
Operating Income (Note 1)	18,819,707	68,787,767	44,132,581	24,622,907	30,345,270
Non-operating Income and Gains (Note 1)	2,240,310	2,783,264	1,142,944	1,420,086	2,319,489
Non-operating Expenses and Losses (Note 1)	1,609,559	147,344	311,137	646,581	929,043
Income from Continuing Operations before Income Tax	19,450,458	71,423,687	44,964,388	25,396,412	31,735,716
Income from Continuing Operations	17,589,186	62,299,048	39,514,844	22,614,413	28,552,526
Income (Loss) from Discontinued Operations					
Income (Loss) from Extraordinary Items					
Cumulative Effect of Changes in Accounting Principle					
Net Income	17,589,186	62,299,048	39,514,844	22,614,413	28,552,526
Net Income Attribute to Shareholders of the Parent	16,780,968	61,975,796	39,533,600	22,608,902	28,635,349
Basic Earnings Per Share	20.17	73.32	46.18	26.04	32.80

2. IFRS

Unit: NT$ thousands (Expect EPS:NT$)

Item	As of 2013.3.31
Revenue	42,788,517
Gross Profit	8,682,152
Operating Income	43,358
Non-operating Income and Gains	59,387
Net Income Before Tax	102,745
Net Income from Continuing Operations	85,126
Non-Continuing Operations Loss	-
Net Income(Loss)	85,126
Other Comprehensive Income and Loss for The Period, Net of Income Tax	581,108
Total Comprehensive Income for The Period	666,234
Allocations of Profit or Loss for The Period Attributable to: Owners of The Parent	85,126
Allocations of Profit or Loss for The Period Attributable to: Non-Controlling Interest	-
Allocations of Total Comprehensive Income for The Period Attributable to: Owners of The Parent	666,234
Allocations of Total Comprehensive Income for The Period Attributable to: Non-Controlling Interest	-
Basic Earnings Per Share	0.1

(5) The Name of the Certified Public Accountant and the Auditor's Opinion

Year	CPA Firm	Certified Public Accountant	Auditor's Opinion
2008	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Kwan-Chung Lai	Modified Unqualified Opinion
2009	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2010	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2011	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2012	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion

2. FINANCIAL ANALYSIS

(1) Financial Analysis (Unconsolidated)

Item (Note 2-3)		2012	2011	2010	2009	2008
Capital Structure Analysis	Debt Ratio (%)	60	59	59	45	47
	Long-term Fund to Fixed Assets Ratio (%)	403	658	683	790	822
Liquidity Analysis	Current Ratio (%)	103	123	144	188	186
	Quick Ratio (%)	80	100	120	171	169
	Debt Services Coverage Ratio	52,892	6,806	967,203	192,463	136,167
Operating Performance Analysis	Average Collection Turnover (Times)	5.02	6.95	5.92	4.92	6.09
	Days Sales Outstanding	73	53	62	74	60
	Average Inventory Turnover (Times)	7.85	12.11	11.77	11.71	12.68
	Average Payment Turnover (Times)	2.78	4.85	4.59	3.72	4.08
	Average Inventory Turnover Days	46	30	31	31	29
	Fixed Assets Turnover (Times)	13.58	29.51	25.14	17.43	20.68
	Total Assets Turnover (Times)	1.36	1.83	1.49	1.21	1.32
Profitability Analysis	Return on Total Assets (%)	8	29	26	22	28
	Return on Equity (%)	18	70	56	37	49
	Operating Income to Paid-in Capital Ratio (%)	173	761	517	306	401
	Pre-tax Income to Paid-in Capital Ratio (%)	199	820	544	320	418
	Net Margin (%)	6	14	14	16	19
	Basic Earnings Per Share (NT$)	20.17	73.32	46.18	26.04	32.80
Cash Flow	Cash Flow Ratio (%)	19	58	37	51	69
	Cash Flow Adequacy Ratio (%)	129	163	157	201	221
	Cash Flow Reinvestment Ratio (%)	(12)	52	26	11	28
Leverage	Operating Leverage	2.37	1.35	1.43	1.54	1.44
	Financial Leverage	1	1	1	1	1

Analysis of variation for last two years:

1. Capital Structure & Liquidity Analyses

   As of year-end 2012, our debt ratio stood at 60% as last year level and current and quick ratios were both lower at 103% and 80%, respectively. This situation reflected declines in revenue while maintaining past dividend ratio which caused net cash outflow to lower current and quick ratio compare to previous year.

   HTC carries no external loans and equity funds currently cover all expenditure needs. The interest expense entered into the income statement primarily reflects interests on tax payments, caused an increase debt services coverage ratio compared to 2011.

2. Operating Performance Analysis

   Due to decline in revenue, fixed asset turnover, total asset turnover, and average collection turnover were all lower than the previous year. Operation cost also lowered, inventory and account payable items also decreased, causing inventory turnover days and payment turnover days to be lower compared to the previous year.

3. Profitability Analysis

   On the back of declines in revenue, profitability decreased compared to the previous year given intensified market competition, price competition and sustainability for branding activities. Net margin declined from 14% to 6% in 2011 to 2012. 2012 EPS came to NT$20.17 per share.

4. Cash Flow Analysis

   Decline in revenue led to decline in net cash flows from operating activities, net cash flow ratio declined to 19%, while having current liabilities also slowed. However, HTC was still able to expand office capacity for future growth, and maintained the cash dividend ratio for 2012, and the cash flow adequacy ratio came to 129%. Cash flow reinvestment ratio is lower this year to maintain cash dividend ratio for 2012 and lowering net cash flows from operating activities.

(2) Financial Analysis (Consolidated)

1. ROC GAAP

Item		2012	2011	2010	2009	2008
Capital Structure Analysis	Debt Ratio (%)	61	60	61	45	48
	Long-term Fund to Fixed Assets Ratio (%)	313	476	533	664	681
Liquidity Analysis	Current Ratio (%)	111	127	146	195	190
	Quick Ratio (%)	85	102	120	176	171
	Debt Services Coverage Ratio (Times)	11,342	2,307	12,624	11,683	3,041
Operating Performance Analysis	Average Collection Turnover (Times)	5.27	7.23	6.14	6.03	6.12
	Days Sales Outstanding	69	50	59	61	60
	Average Inventory Turnover (Times)	6.96	10.55	10.06	11.46	10.95
	Average Payment Turnover (Times)	2.79	4.66	4.35	4.03	3.92
	Average Inventory Turnover Days	52	35	36	32	33
	Fixed Assets Turnover (Times)	11.27	21.65	19.88	14.6	17.09
	Total Assets Turnover (Times)	1.4	1.83	1.46	1.21	1.32
Profitability Analysis	Return on Total Assets (%)	8	28	26	21	28
	Return on Equity (%)	19	70	56	37	49
	Operating Income to Paid-in Capital Ratio (%)	221	807	540	312	402
	Pre-tax Income to Paid-in Capital Ratio (%)	228	838	550	322	420
	Net Margin (%)	6	13	14	16	19
	Basic Earnings Per Share (NT$)	20.17	73.32	46.18	26.04	32.80
Cash Flow	Cash Flow Ratio (%)	18	58	40	52	68
	Cash Flow Adequacy Ratio (%)	126	158	150	192	211
	Cash Flow Reinvestment Ratio (%)	(11)	53	32	11	28
Leverage	Operating Leverage	2.37	1.35	1.43	1.54	1.44
	Financial Leverage	1	1	1	1	1

2. IFRS

Item			As of 2013.3.31
Capital Structure Analysis (%)	Debt Ratio (%)		60
	Long-term Fund to Fixed Asset and Properties Ratio (%)		315
Liquidity Analysis (%)	Current Ratio (%)		108
	Quick Ratio (%)		73
	Debt Services Coverage Ratio (Times)		2,142
Operating Performance Analysis	Average Collection Turnover (Times)		4.60
	Days Sales Outstanding		79
	Average Inventory Turnover (Times)		3.80
	Average Payment Turnover (Times)		1.83
	Average Inventory Turnover Days		96
	Fixed Asset and Property Turnover (Times)		6.60
	Total Assets Turnover (Times)		0.83
Profitability Analysis	Return on Total Assets (%)		0.04
	Return on Equity (%)		0.11
	Paid-in Capital Ratio (%)	Operating Income	0.51
		Pre-tax Income	1.21
	Net Margin (%)		0.2
	Basic Earnings Per Share (NT$)		0.10
Cash Flow	Cash Flow Ratio (%)		(18)
	Cash Flow Adequacy Ratio (%)		109
	Cash Flow Reinvestment Ratio (%)		(6)
Leverage	Operating Leverage		165.90
	Financial Leverage		1.00

Analysis of variation for last two years:

1. Capital Structure & Liquidity Analyses

As of year-end 2012, our debt ratio stood at 61% the same as the 2011 level, current and quick ratios were both lower at 111% and 85%, respectively. This situation reflected decreased in revenue while maintaining cash dividend ratio, which caused net cash outflow and drove current asset and quick asset to drop.

HTC carries no external loans and equity funds currently cover all expenditure needs. The interest expense entered into the income statement primarily reflects interests on tax payments, causing an increase debt services coverage ratio compared to 2011.

2. Operating Performance Analysis

Fixed asset turnover, total asset turnover, collection turnover, days sales outstanding, average inventory turnover were all lowered compare to previous year due to decline in revenue.

3. Profitability Analysis

On the back of declines in revenue, profitability decreased compare to previous year given intensified market competition, price competition, sustainability for a branding company. Net margin declined from 13% to 6% in 2011 to 2012, respectively. 2012 EPS came to NT$20.17 pershare.

4. Cash Flow Analysis

Declines in revenue led to declins in net cash flows from operating activities, net cash flow ratio declined to 18%, while having current liabilities also slowed. However, HTC was still able to expand office capacity for future growth, and maintained cash dividend ratio for 2012, cash flow adequacy ratio came to 126%. Cash flow reinvestment ratio is lower this year to maintain cash dividend ratio for 2012 and lowering net cash flows from operating activities.

Note 1: Glossary

a. Capital Structure Analysis
- (1) Debt Ratio=Total Liabilities / Total Assets.
- (2) Long-term Fund to Fixed Assets Ratio=(Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets.

b. Liquidity Analysis
- (1) Current Ratio=Current Assets / Current Liabilities.
- (2) Quick Ratio=(Current Assets - Inventories - Prepaid Expenses-Deferred income tax-current) / Current Liabilities.
- (3) Debt Services Coverage Ratio=Earnings before Interest and Taxes / Interest Expenses.

c. Operating Performance Analysis
- (1) Average Collection Turnover= Net Sales / Average Trade Receivables.
- (2) Days Sales Outstanding=365 / Average Collection Turnover.
- (3) Average Inventory Turnover=Cost of Sales / Average Inventory.
- (4) Average Payment Turnover=Cost of Sales / Average Trade Payables.
- (5) Average Inventory Turnover Days=365 / Average Inventory Turnover.
- (6) Fixed Assets Turnover=Net Sales / Net Fixed Assets.
- (7) Total Assets Turnover=Net Sales / Total Assets.

d. Profitability Analysis
- (1) Return on Total Assets=(Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets.
- (2) Return on Equity=Net Income / Average Shareholders' Equity.
- (3) Net Margin=Net Income / Net Sales.
- (4) Earnings Per Share=(Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding.

e. Cash Flow
- (1) Cash Flow Ratio=Net Cash Provided by Operating Activities / Current Liabilities.
- (2) Cash Flow Adequacy Ratio=Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend.
- (3) Cash Flow Reinvestment Ratio=(Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Investments + Other Assets + Working Capital).

f. Leverage
- (1) Operating Leverage=(Net Sales - Variable Cost) / Income from Operations.
- (2) Financial Leverage=Income from Operations / (Income from Operations – Interest Expenses)

3. 2012 SUPERVISOR'S REPORT

HTC CORPORATION
SUPERVISORS AUDIT REPORT

The Board of Directors has prepared the Company's 2012 Business Report, Financial Statements and Earnings Distribution Proposal. HTC Corporation's Financial Statements have been audited and certified by Yang, Ming-Hsien, CPA, and Wang Tze-Chun, CPA, of Deloitte & Touche and an audit report relating to the Financial Statements has been issued. The Business Report, Financial Statements and Earnings Distribution Proposal have been reviewed and considered to be in compliance with relevant rules by the undersigned, the supervisor of HTC Corporation. According to Article 219 of the Company Law, I hereby submit this report.

HTC CORPORATION
SUPERVISOR:
Huang-Chieh Chu
May 3, 2013

Way-Chih Investment Co., Ltd.
Representative: Shao-Lun Lee

4. INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders

HTC Corporation

We have audited the accompanying balance sheets of HTC Corporation (the "Company") as of December 31, 2011 and 2012, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HTC Corporation as of December 31, 2011 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of the Company and subsidiaries as of and for the years ended December 31, 2011 and 2012, and expressed an unqualified opinion on those statements in our report dated March 18, 2013.

Our audits also comprehended the translation of the 2012 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

March 18, 2013

Notice to Readers

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

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

HTC CORPORATION

BALANCE SHEETS

DECEMBER 31, 2011 AND 2012

(In Thousands, Except Par Value)

	2011	2012	
ASSETS	NT$	NT$	US$ (Note 3)
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 5)	$78,872,320	$44,506,829	$1,527,922
Financial assets at fair value through profit or loss (Notes 2, 6 and 25)	256,868	6,950	238
Available-for-sale financial assets - current (Notes 2 and 7)	736,031	-	-
Held-to-maturity financial assets - current (Notes 2 and 13)	-	101,459	3,483
Hedging derivative assets - current (Notes 2, 8 and 25)	-	204,519	7,021
Notes and accounts receivable, net (Notes 2 and 9)	32,039,776	19,743,763	677,804
Accounts receivable from related parties, net (Notes 2 and 26)	32,977,269	19,468,130	668,342
Other receivables - related parties (Note 26)	79,077	6,633,724	227,736
Other current financial assets (Note 10)	1,304,850	1,124,470	38,603
Inventories (Notes 2 and 11)	25,389,320	20,521,967	704,520
Prepayments (Notes 12 and 26)	6,473,372	4,154,949	142,640
Deferred income tax assets - current (Notes 2 and 23)	1,517,302	1,948,496	66,892
Restricted assets - current (Note 27)	-	3,645,820	125,161
Other current assets	558,279	210,066	7,212
Total current assets	180,204,464	122,271,142	4,197,574
LONG-TERM INVESTMENTS			
Available-for-sale financial assets - non-current (Notes 2 and 7)	279	197	7
Held-to-maturity financial assets - non-current (Notes 2 and 13)	204,597	-	-
Financial assets carried at cost - non-current (Notes 2 and 14)	515,861	515,861	17,710
Investments accounted for by the equity method (Notes 2 and 15)	36,477,563	41,786,408	1,434,529
Prepayments for long-term investments (Notes 2 and 15)	579,485	349,688	12,005
Total long-term investments	37,777,785	42,652,154	1,464,251
PROPERTIES (Notes 2, 16 and 26)			
Cost			
Land	7,462,281	7,462,489	256,188
Buildings and structures	3,680,608	9,520,993	326,856
Machinery and equipment	7,100,072	8,732,565	299,789
Molding equipment	172,632	-	-
Computer equipment	398,289	500,978	17,199
Transportation equipment	6,570	6,570	226
Furniture and fixtures	204,185	240,906	8,270
Leased assets	4,712	-	-
Leasehold improvements	215,437	220,726	7,577
Total cost	19,244,786	26,685,227	916,105
Less: Accumulated depreciation	(5,850,061)	(6,958,391)	(238,882)
Prepayments for construction-in-progress and equipment in transit	2,027,620	208,750	7,166
Properties, net	15,422,345	19,935,586	684,389
INTANGIBLE ASSETS			
Patents (Note 2)	2,120,948	1,625,340	55,798
OTHER ASSETS			
Refundable deposits	78,894	84,947	2,916
Deferred charges (Note 2)	120,593	91,810	3,152
Deferred income tax assets - non-current (Notes 2 and 23)	3,596,520	4,362,785	149,775
Restricted assets - non-current (Note 27)	63,900	-	-
Other (Notes 2, 12 and 19)	8,725,474	8,162,974	280,235
Total other assets	12,585,381	12,702,516	436,078
TOTAL	$248,110,923	$199,186,738	$6,838,090

	2011	2012	
LIABILITIES AND STOCKHOLDERS' EQUITY	NT$	NT$	US$ (Note 3)
CURRENT LIABILITIES			
Notes and accounts payable	$72,855,374	$71,227,584	$2,445,246
Accounts payable to related parties (Note 26)	3,639,231	2,902,985	99,660
Income tax payable (Notes 2 and 23)	9,653,090	1,424,006	48,886
Accrued expenses (Notes 17 and 26)	42,364,231	30,537,236	1,048,345
Payable for purchase of equipment (Note 26)	348,772	1,119,058	38,417
Other current liabilities (Notes 2, 18 and 26)	17,823,001	11,606,654	398,457
Total current liabilities	146,683,699	118,817,523	4,079,011
OTHER LIABILITIES			
Guarantee deposits received	628	-	-
Total liabilities	146,684,327	118,817,523	4,079,011
STOCKHOLDERS' EQUITY (Note 20)			
Capital stock - NT$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 852,052 thousand shares in 2011 and 2012			
Common stock	8,520,521	8,520,521	292,510
Capital surplus			
Additional paid-in capital - issuance of shares in excess of par	14,809,608	14,809,608	508,415
Treasury stock transactions	1,730,458	1,730,458	59,407
Long-term equity investments	18,037	18,037	619
Merger	24,423	24,423	838
Expired stock options	37,068	37,068	1,273
Retained earnings			
Legal reserve	10,273,674	16,471,254	565,459
Special reserve	580,856	-	-
Accumulated earnings	75,762,315	53,677,474	1,842,750
Other equity			
Cumulative translation adjustments (Note 2)	32,134	(1,057,559)	(36,306)
Net losses not recognized as pension cost	(293)	(347)	(12)
Unrealized valuation gains on financial instruments (Notes 2, 8 and 25)	2,939	203,768	6,995
Treasury stock (Notes 2 and 21)	(10,365,144)	(14,065,490)	(482,869)
Total stockholders' equity	101,426,596	80,369,215	2,759,079
TOTAL	$248,110,923	$199,186,738	$6,838,090

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

FINANCIAL INFORMATION
8

HTC CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2012

(In Thousands, Except Earnings Per Share)

	2011	2012	
	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 26)			
Sales	$456,791,548	$272,021,523	$9,338,512
Sales returns and allowances	(2,533,270)	(2,942,284)	(101,009)
Net sales	454,258,278	269,079,239	9,237,503
Other operating revenues	820,908	1,622,448	55,699
Total revenue	455,079,186	270,701,687	9,293,202
COST OF REVENUES (Notes 11, 22 and 26)	335,325,140	213,712,615	7,336,764
GROSS PROFIT	119,754,046	56,989,072	1,956,438
UNREALIZED INTERCOMPANY GAINS	(1,151,531)	(2,354,363)	(80,826)
REALIZED INTERCOMPANY GAINS	345,455	1,151,531	39,532
REALIZED GROSS PROFIT	118,947,970	55,786,240	1,915,144
OPERATING EXPENSES (Notes 22 and 26)			
Selling and marketing	31,266,424	21,721,715	745,707
General and administrative	5,860,841	5,521,252	189,545
Research and development	16,960,163	13,780,378	473,081
Total operating expenses	54,087,428	41,023,345	1,408,333
OPERATING INCOME	64,860,542	14,762,895	506,811
NON-OPERATING INCOME AND GAINS			
Interest income (Note 26)	622,365	504,794	17,330
Gains on equity-method investments (Notes 2 and 15)	2,718,362	617,608	21,203
Gains on sale of investments, net	29	7,695	264
Exchange gains, net (Note 2)	1,212,432	710,312	24,385
Valuation gains on financial instruments, net (Notes 2 and 6)	256,868	17,417	597
Other (Note 26)	250,237	459,705	15,782
Total non-operating income and gains	5,060,293	2,317,531	79,561
NON-OPERATING EXPENSES AND LOSSES			
Interest expense	$10,265	$320	$10
Impairment loss (Notes 2 and 15)	-	45,017	1,546
Other	60,899	109,986	3,776
Total non-operating expenses and losses	71,164	155,323	5,332
INCOME BEFORE INCOME TAX	69,849,671	16,925,103	581,040
INCOME TAX (Notes 2 and 23)	(7,873,875)	(144,135)	(4,948)
NET INCOME	$61,975,796	$16,780,968	$576,092

(Continued)

	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 24)	$82.63	$73.32	$20.34	$0.70	$20.17	$0.69
DILUTED EARNINGS PER SHARE (Note 24)	$81.05	$71.91	$20.25	$0.70	$20.08	$0.69

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

(Concluded)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2011 AND 2012

(In Thousands of New Taiwan Dollars)

	Capital Stock	Capital Surplus					Retained Earnings			Other Equity				
	Issued and Outstanding Common Stock	Issuance of Shares in Excess of Par	Treasury Stock Transactions	Long-term Equity Investments	Merger	Expired Stock Options	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Gain (Loss) on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2011	$ 8,176,532	$ 10,777,623	$ -	$ 18,411	$ 24,710	$ -	$ 10,273,674	$ -	$ 52,876,892	($ 579,849)	($ 121)	($ 885)	($ 6,852,493)	$ 74,714,494
Appropriation of the 2010 net earnings														
Special reserve	-	-	-	-	-	-	-	580,856	(580,856)	-	-	-	-	-
Stock dividends	403,934	-	-	-	-	-	-	-	(403,934)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(29,891,089)	-	-	-	-	(29,891,089)
Transfer of employee bonuses to common stock	40,055	4,205,796	-	-	-	-	-	-	-	-	-	-	-	4,245,851
Net income in 2011	-	-	-	-	-	-	-	-	61,975,796	-	-	-	-	61,975,796
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	3,824	-	3,824
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	611,983	-	-	-	611,983
Adjustment due to the movement of investees' other equity under the equity method	-	-	-	-	-	-	-	-	-	-	(172)	-	-	(172)
Adjustment due to changes in ownership percentage in investees	-	-	-	(374)	-	-	-	-	-	-	-	-	-	(374)
Transfer of treasury stock to employees	-	-	1,750,767	-	-	37,503	-	-	-	-	-	-	4,113,821	5,902,091
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(16,135,808)	(16,135,808)
Retirement of treasury stock	(100,000)	(173,811)	(20,309)	-	(287)	(435)	-	-	(8,214,494)	-	-	-	8,509,336	-
BALANCE, DECEMBER 31, 2011	8,520,521	14,809,608	1,730,458	18,037	24,423	37,068	10,273,674	580,856	75,762,315	32,134	(293)	2.939	(10,365,144)	101,426,596
Appropriation of the 2011 net earnings														
Legal reserve	-	-	-	-	-	-	6,197,580	-	(6,197,580)	-	-	-	-	-
Special reserve reversed	-	-	-	-	-	-	-	(580,856)	580,856	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(33,249,085)	-	-	-	-	(33,249,085)
Net income in 2012	-	-	-	-	-	-	-	-	16,780,968	-	-	-	-	16,780,968
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	-	(4,713)	-	(4,713)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(1,089,693)	-	-	-	(1,089,693)
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	194,052	-	194,052
Adjustment due to the movement of investees' other equity under equity method	-	-	-	-	-	-	-	-	-	-	(54)	11,490	-	11,436
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(3,700,346)	(3,700,346)
BALANCE, DECEMBER 31, 2012	$ 8,520,521	$ 14,809,608	$ 1,730,458	$18,037	$24,423	$37,068	$ 16,471,254	$ -	$ 53,677,474	($ 1,057,559)	($ 347)	$ 203,768	($ 14,065,490)	$ 80,369,215

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2012

(In Thousands of U.S. Dollars)

	Capital Stock	Capital Surplus					Retained Earnings			Other Equity				
	Issued and Outstanding Common Stock	Issuance of Shares in Excess of Par	Treasury Stock Transactions	Long-term Equity Investments	Merger	Expired Stock Options	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Gain (Loss) on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2012	$292,510	$508,415	$59,407	$619	$838	$1,273	$352,696	$19,941	$2,600,923	$1,103	($10)	$101	($355,836)	$3,481,980
Appropriation of the 2011 net earnings														
Legal reserve	-	-	-	-	-	-	212,763	-	(212,763)	-	-	-	-	-
Special reserve reversed	-	-	-	-	-	-	-	(19,941)	19,941	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(1,141,443)	-	-	-	-	(1,141,443)
Net income in 2012	-	-	-	-	-	-	-	-	576,092	-	-	-	-	576,092
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	-	(162)	-	(162)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(37,409)	-	-	-	(37,409)
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	6,662	-	6,662
Adjustment due to the movement of investees' other equity under equity method	-	-	-	-	-	-	-	-	-	-	(2)	394	-	392
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(127,033)	(127,033)
BALANCE, DECEMBER 31, 2012	$292,510	$508,415	$59,407	$619	$838	$1,273	$565,459	$-	$1,842,750	($36,306)	($12)	$6,995	($482,869)	$2,759,079

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

HTC CORPORATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2012

(In Thousands)

	2011	2012	2012
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$61,975,796	$16,780,968	$576,092
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	928,774	1,292,949	44,387
Amortization	397,022	524,391	18,002
Compensation cost recognized for the transfer of treasury stock to employees	1,788,270	-	-
Distribution of bonuses to employees of subsidiaries	(599,510)	-	-
Amortization of premium on financial assets	3,349	3,138	108
Prepaid pension costs	(24,882)	(22,184)	(762)
Gains on equity-method investments	(2,718,362)	(617,608)	(21,203)
Cash dividends received from equity-method investees	1,786	1,744	60
Transfer of properties to expenses	59	17,411	598
Gains on sale of investments, net	(29)	(7,695)	(264)
Unrealized gain on financial assets	-	(10,467)	(359)
Impairment loss	-	45,017	1,546
Deferred income tax assets	(1,768,812)	(1,197,459)	(41,109)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	193,408	249,918	8,580
Notes and accounts receivable	3,139,262	12,296,013	422,123
Accounts receivable from related parties	(4,790,878)	13,509,139	463,769
Other current financial assets	(623,399)	180,380	6,192
Other receivables - related parties	(42,892)	45,446	1,560
Inventories	(3,468,828)	4,867,353	167,096
Prepayments	(3,669,657)	(585,542)	(20,102)
Other current assets	(101,225)	348,213	11,954
Other assets - other	(5,289,930)	584,684	20,072
Notes and accounts payable	15,152,938	1,276,175	43,811
Accounts payable to related parties	2,292,250	(736,246)	(25,275)
Income tax payable	3,236,423	(8,229,084)	(282,505)
Accrued expenses	14,946,453	(11,608,359)	(398,516)
Other current liabilities	4,753,191	(6,216,347)	(213,407)
Net cash provided by operating activities	85,710,577	22,791,948	782,448
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	739,095	25,373
Repayment of held-to-maturity financial assets	-	100,000	3,433
Increase in investments accounted for by the equity method	(23,186,330)	(5,586,458)	(191,783)
Purchase of properties	(5,328,935)	(5,271,951)	(180,986)
Decrease (increase) in refundable deposits	303	(6,053)	(208)
Increase in deferred charges	(122,413)	-	-
Loan to related parties	-	(6,600,093)	(226,582)
Increase in restricted assets	-	(3,581,920)	(122,967)
Purchase of intangible assets	(2,279,911)	-	-
Net cash used in investing activities	(31,207,257)	(20,207,380)	(693,720)

(Continued)

	2011	2012	2012
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in guarantee deposits received	-	(628)	(21)
Cash dividends	(29,891,089)	(33,249,085)	(1,141,443)
Purchase of treasury stock	(16,135,808)	(3,700,346)	(127,033)
Transfer treasury stock to employees	4,113,821	-	-
Net cash used in financing activities	(41,913,076)	(36,950,059)	(1,268,497)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,590,244	(34,365,491)	(1,179,769)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	66,282,076	78,872,320	2,707,691
CASH AND CASH EQUIVALENTS, END OF YEAR	$78,872,320	$44,506,829	$1,527,922
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the year			
Interest	$10,265	$320	$11
Income tax	$6,406,264	$9,570,679	$328,562
NON-CASH 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	$-	$-
Retirement of treasury stock	$8,509,336	$-	$-
Transfer of accrued bonus to employees to stock dividends for distribution and other capital surplus	$4,245,851	$-	$-
INCREASE IN LONG-TERM INVESTMENTS - EQUITY METHOD			
Increase in investments accounted for by the equity method	$23,145,450	$5,586,458	$191,783
Decrease in payable for purchase of investments	40,880	-	-
Cash paid for increase in long-term investments	$23,186,330	$5,586,458	$191,783
PURCHASE OF PROPERTIES			
Cost of properties purchased	$5,359,120	$6,042,237	$207,430
Increase in payable for purchase of equipment	(30,185)	(770,286)	(26,444)
Cash paid for the purchase of properties	$5,328,935	$5,271,951	$180,986

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

(Concluded)

1. ORGANIZATION AND OPERATIONS

HTC Corporation (the "Company") was incorporated on May 15, 1997 under the Company Law of the Republic of China to design, manufacture, assemble, process, and sell smart handheld devices and provide after-sales service. In March 2002, the Company' s stock was listed on the Taiwan Stock Exchange. On November 19, 2003, the Company listed some of its shares of stock on the Luxembourg Stock Exchange in the form of global depositary receipts.

The Company had 14,506 and 14,252 employees as of December 31, 2011 and 2012, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

(1) 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. These 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 non-monetary 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 non-monetary 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.

(2) Accounting Estimates

Under the 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.

(3) Current/Non-current 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 non-current. 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 non-current.

(4) 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, canceled 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 (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.

(5) Available-for-sale Financial Assets

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

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

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

(6) 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. This review is made by an aging analysis of the outstanding receivables and assessing the value of the collaterals 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 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 undergo bankruptcy or financial reorganization.

Accounts receivable that are assessed as not 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 and 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 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 collaterals 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.

(7) 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 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.

(8) 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 that 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.

(9) 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 stockholders' 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:

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.

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, the amount that is not expected to be recovered is reclassified to profit or loss.

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 on disposal of the foreign operation.

(10) 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 as 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.

(11) 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 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 non-current assets acquired (except for financial assets other than investments accounted for by the equity method, non-current assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the non-current 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.

(12) 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 start 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 non-operating 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.

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

(14) Deferred Charges
Deferred charges are deferred license fees. Deferred license fees are amortized on a straight-line basis over five years.

(15) 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 reduction of the unrealized revaluation increment, and any remaining loss is charged to earnings. If an impairment loss 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 on which the Company has significant influence but over which it has no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

(16) 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.

(17) Warranty Provisions
The Company provides warranty service for one year to two years. The warranty liability is estimated on the basis of evaluation of the products under warranty, past warranty experience, and pertinent factors.

(18) 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, evaluating the foregoing effects on inventory management and adjusting the Company's purchases.

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

(20) 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.

(21) 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 stockholders' equity; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforwards 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 non-current in accordance with the classification of the related asset or liability for financial reporting. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as current or non-current on the basis of 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 stockholders approve the retention of these earnings.

(22) 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.

(23) Treasury Stock
Under SFAS No. 30 - "Accounting for Treasury Stocks," when the Company acquires its outstanding shares that have not been disposed or retired, treasury stock is stated at cost and shown as a deduction in stockholders' equity. When treasury shares 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 stock is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The carrying value of treasury stock in excess of the sum of its par value and premium on stock 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 sum of the par value and premium on treasury stock in excess of its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

(24) Reclassifications
Certain 2011 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the year ended December 31, 2012.

3. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2012 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$29.129 to US$1.00 quoted by Reuters on December 31, 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 include (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 year ended December 31, 2011.

Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41 - "Operating Segments." The requirements of the statement are based on the information on 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 the Company's compliance with the requirement to disclose operating segment information.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Cash on hand	$1,000	$1,010	$35
Checking accounts	7,903	4,562	157
Demand deposits	21,844,352	29,544,930	1,014,279
Time deposits	57,019,065	14,956,327	513,451
	$78,872,320	$44,506,829	$1,527,922

On time deposits, interest rates ranged from 0.15% to 1.345% and from 0.20% to 1.05%, as of December 31, 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 December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Derivatives - financial assets			
Exchange contracts	$256,868	$6,950	$238

The Company entered into derivative transactions in 2011 and 2012 to manage exposures related to exchange rate fluctuations. The outstanding forward exchange contracts that did not meet the criteria for hedge accounting as of December 31, 2011 and 2012 were as follows:

Forward Exchange Contracts

		2011
Currency	Settlement Period/Date	Contract Amount
Buy		
USD/CAD	2012.01.11-2012.02.22	USD28,010
USD/RMB	2012.01.04-2012.01.31	USD105,000
Sell		
EUR/USD	2012.01.04-2012.03.30	EUR339,000
GBP/USD	2012.01.11-2012.02.22	GBP17,100

		2012
Currency	Settlement Period/Date	Contract Amount
Sell		
EUR/USD	2013.01.11-2013.03.27	EUR146,000
GBP/USD	2013.01.09-2013.03.20	GBP20,700
USD/NTD	2013.01.17-2013.02.20	USD70,000
USD/RMB	2013.01.09-2013.01.30	USD78,000
Buy		
USD/RMB	2013.01.09-2013.01.30	USD106,000
USD/JPY	2013.01.09-2013.03.08	USD97,437
USD/CAD	2013.01.09-2013.02.22	USD22,158
USD/NTD	2013.01.07-2013.02.21	USD270,000

Net gain on derivative financial instruments in 2011 was NT$173,575 thousand, including a realized settlement loss of NT$83,293 thousand and valuation gain of NT$256,868 thousand, which were classified as exchange loss and valuation gain, respectively, on financial instruments.

Net gain on derivative financial instruments in 2012 was NT$356,010 thousand (US$12,222 thousand), including realized settlement gain of NT$349,060 thousand (US$11,984 thousand) and valuation gain of NT$6,950 thousand (US$238 thousand), which were classified as exchange gain and valuation gain on financial instruments, respectively. Note 25 has more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Mutual funds	$736,031	$-	$-
Domestic quoted stocks	279	197	7
	736,310	197	7
Less: Current portion	(736,031)	-	-
	$279	$197	$7

8. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

Hedging derivative financial instruments as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Hedging derivative assets	$-	$204,519	$7,021

The Company's foreign-currency cash flows derived from the highly probable forecast transaction may lead to risks on 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 against foreign-currency exchange risks. The outstanding forward exchange contract as of December 31, 2012 was as follows:

Forward exchange contracts

		2012
Currency	Settlement Period/Date	Contract Amount
Buy		
USD/JPY	2013.03.28	USD95,356

Movements of hedging derivative financial instruments for 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Balance, beginning of year	$-	$-	$-
Add: Recognized in profit and loss	-	10,467	359
Unrealized valuation loss	-	194,052	6,662
Balance, end of year	$-	$204,519	$7,021

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

9. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Notes receivable	$755,450	$-	$-
Accounts receivable	32,838,334	21,802,849	748,493
	33,593,784	21,802,849	748,493
Less: Allowance for doubtful accounts	(1,554,008)	(2,059,086)	(70,689)
	$32,039,776	$19,743,763	$677,804

10. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Other receivables	$1,036,838	$1,083,595	$37,200
Interest receivable	19,927	6,738	231
Agency payments	248,085	34,137	1,172
	$1,304,850	$1,124,470	$38,603

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 December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Finished goods	$675,712	$764,667	$26,251
Work-in-process	3,766,461	1,940,584	66,620
Semi-finished goods	4,083,050	3,954,056	135,743
Raw materials	16,788,114	13,652,134	468,679
Goods in transit	75,983	210,526	7,227
	$25,389,320	$20,521,967	$704,520

As of December 31, 2011 and 2012, the allowances for inventory devaluation were NT$4,631,195 thousand and NT$3,880,363 thousand (US$133,213 thousand), respectively.

The write-down of inventories to their net realizable value amounting to NT$3,197,362 thousand and NT$1,211,554 thousand (US$41,593 thousand) were recognized as cost of revenues in 2011 and 2012, respectively.

12. PREPAYMENTS

Prepayments as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Royalty	$5,184,548	$2,436,378	$83,641
Prepayments to suppliers	249,069	852,744	29,275
Software and hardware maintenance	263,211	673,703	23,128
Molding equipment	188,242	96,859	3,325
Services	548,480	61,171	2,100
Others	39,822	34,094	1,171
	$6,473,372	$4,154,949	$142,640

Prepayments for royalty were primarily for discount purposes and were classified as current or non-current in accordance with their nature. As of December 31, 2011 and 2012, the non-current prepayments of NT$5,551,630 thousand and NT$5,802,491 thousand (US$199,200 thousand), respectively, had been classified as other assets - other (Note 28 has more information).

Prepayments to suppliers were primarily for discount purposes and were classified as current or non-current in accordance with their nature. As of December 31, 2011 and 2012, non-current prepayments of NT$2,956,977 thousand and NT$2,121,432 thousand (US$72,829 thousand) , respectively, had been classified as other assets - other.

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

13. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Corporate bonds	$204,597	$101,459	$3,483
Less: Current portion	-	(101,459)	(3,483)
	$204,597	$-	$-

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

14. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of December 31, 2011 and 2012 were as follow:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$500,000	$500,000	$17,165
BandRich Inc.	15,861	15,861	545
Answer Online, Inc.	1,192	1,192	41
	517,053	517,053	17,751
Less: Accumulated impairment loss	(1,192)	(1,192)	(41)
	$515,861	$515,861	$17,710

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

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

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

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

15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of December 31, 2011 and 2012 were as follows:

	2011		2012		
	Carrying Value	Ownership Percentage	Carrying Value		Ownership Percentage
	NT$		NT$	US$ (Note 3)	
Unquoted equity investments					
H.T.C. (B.V.I.) Corp.	$2,728,368	100.00	$2842,154	$97,571	100.00
Communication Global Certification Inc.	463,905	100.00	564,482	19,379	100.00
High Tech Computer Asia Pacific Pte. Ltd.	23,140,506	100.00	28,800,997	988,740	100.00
HTC Investment Corporation	301,332	100.00	303,889	10,433	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	1.00
HTC I Investment Corporation	295,902	100.00	300,106	10,303	100.00
HTC Holding Cooperatief U.A.	13	1.00	13	-	1.00
Huada Digital Corporation	250,689	50.00	241,309	8,284	50.00
HTC Investment One (BVI) Corporation	9,296,786	100.00	8,733,366	299,817	100.00
FunStream Corporation	-	-	45,047	1,546	100.00
Prepayments for long-term investments	579,485		349,688	12,005	
	37,057,048		42,181,113	1,448,080	
Less: Accumulated impairment loss	-		(45,017)	(1,546)	
	$37,057,048		$42,136,096	$1,446,534	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp., whose main business is international holding investment, and accounted for this investment by the equity method. The Company made new investments in H.T.C. (B.V.I.) Corp. of US$57,800 thousand in 2011 and US$39,468 thousand in 2012. As of December 31, 2012, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to US$122,520 thousand. Because the registration of this investment had not been completed as of December 31, 2012, an amount of US$375 (NT$11,035 thousand) was temporarily accounted for under "prepayments for long-term investments."

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc., whose main businesses are telecom testing and certification services, and accounted for this investment by the equity method.

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. ("High Tech Asia"), whose main businesses are international holding investment, marketing, repair and after-sales services, and accounted for this investment by the equity method. The Company increased its investment in High Tech Asia by US$393,316 thousand in 2011 and by US$115,000 thousand in 2012. As of December 31, 2012, the Company' s investment in High Tech Asia had amounted to US$714,534 thousand.

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

In December 2007, the Company and its subsidiary, High Tech Computer Asia Pacific Pte. Ltd., acquired equity interests of 1% and 99%, respectively, in PT. High Tech Computer Indonesia, whose main businesses are marketing, repair and after-sales services, for US$2 thousand and US$186 thousand, respectively. As a result, the Company has accounted for this investment by the equity method.

In September 2009, the Company acquired 100% equity interest in HTC I Investment Corporation, whose main business is general investing, for NT$295,000 thousand and has accounted for this investment by the equity method.

In October 2009, the Company and its subsidiary, High Tech Computer Asia Pacific Pte. Ltd., acquired equity interests of 1% and 99%, respectively in HTC Holding Cooperatief U.A, whose main business is international holding investment, for EUR0.28 thousand and EUR27.72 thousand, respectively. As a result, the Company has accounted for this investment by the equity method since the acquisition date.

In December 2009, the Company acquired 100% equity interest in Huada Digital Corporation ("Huada"), whose main business is software services, for NT$245,000 thousand and accounted for this investment by the equity method. In September 2011, the Company increased this investment by NT$5,000 thousand. As of December 31, 2012, the Company's investment in Huada had amounted to NT$250,000 thousand (US$8,583 thousand). In September 2011, the Fair Trade Commission Executive Yuan, R.O.C. (Taiwan) approved an investment by Chunghwa Telecom Co., Ltd. ("CHT") in Huada and the registration of this investment was completed in October 2011. After CHT's investment, the Company's ownership percentage declined from 100% to 50%. In March 2012, Huada held a stockholders' meeting and re-elected its directors and supervisors. As a result, the investment type was changed to joint venture and the Company accounted for this investment by the equity method.

In 2011, the Company made a new investment of US$320,002 thousand in HTC Investment One (BVI) Corporation, whose main businesses are an acquisition of 100% equity interests in S3 Graphics Co., Ltd. and general investing, and accounted for this investment by the equity method. The Company increased this investment by US$32,190 thousand in 2012. As of December 31, 2012, the Company's investment in HTC Investment One (BVI) Corporation had amounted to US$352,192 thousand. Because the registration of this investment had not been completed as of December 31, 2012, an amount of US$11,546 thousand (NT$338,653 thousand) was temporarily accounted for under "prepayments for long-term investments."

In February 2012, the Company acquired 100% equity interest in FunStream Corporation, whose main business is design, research and development of three-D technology, for NT$45,090 thousand (US$1,548 thousand) and accounted for this investment by the equity method. In addition, during the fourth quarter of 2012, the Company determined that the recoverable amount of this investment was less than its carrying amount and thus recognized an impairment loss of NT$45,017 thousand (US$1,546 thousand).

In 2011 and 2012, gain (loss) on equity-method investments were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
H.T.C. (B.V.I.) Corp.	$10,304	($1,129,506)	($38,776)
Communication Global Certification Inc.	47,000	100,631	3,455
High Tech Computer Asia Pacific Pte. Ltd.	2,733,831	2,779,241	95,411
HTC Investment Corporation	1,121	3,566	122
HTC I Investment Corporation	817	4,939	170
Huada Digital Corporation	1,006	(9,380)	(322)
HTC Investment One (BVI) Corporation	(75,717)	(1,131,840)	(38,856)
FunStream Corporation	-	(43)	(1)
	$2,718,362	$617,608	$21,203

The financial statements of equity-method investees had been examined by independent auditors.

Under the revised SFAS No. 7, "Consolidated Financial Statements," which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the years ended December 31, 2011 and 2012. All intercompany balances and transactions have been eliminated.

16. PROPERTIES

Properties as of December 31, 2011 and 2012 were as follows:

	2011	2012			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$7,462,281	$7,462,489	$-	$7,462,489	$256,188
Buildings and structures	2,742,684	9,520,993	1,190,386	8,330,607	285,990
Machinery and equipment	2,887,919	8,732,565	5,158,999	3,573,566	122,681
Computer equipment	97,861	500,978	346,166	154,812	5,315
Transportation equipment	3,777	6,570	3,683	2,887	99
Furniture and fixtures	68,496	240,906	159,975	80,931	2,778
Leased assets	65	-	-	-	-
Leasehold improvements	131,642	220,726	99,182	121,544	4,172
Prepayments for construction-in-progress and equipment-in-transit	2,027,620	208,750	-	208,750	7,166
	$15,422,345	$26,893,977	$6,958,391	$19,935,586	$684,389

In April 2011, the Company bought land approximately 49 thousand square meters adjacent to its Taoyuan plant for NT$1,770,000 thousand, the price 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 was completed in June 2012, and a construction amount of NT$5,615,958 thousand (US$192,796 thousand) was transferred from prepayments for construction in progress to buildings and structures.

There were no interests capitalized in 2011 and 2012.

17. ACCRUED EXPENSES

Accrued expenses as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Marketing	$25,556,956	$15,531,875	$533,210
Bonus to employees	7,238,637	5,712,075	196,096
Salaries and performance bonuses	2,500,248	3,451,869	118,503
Services	2,760,164	2,429,101	83,391
Materials and molding expenses	1,848,332	1,900,218	65,234
Import, export and freight	1,197,075	443,604	15,229
Repairs, maintenance and sundry purchase	264,044	391,726	13,448
Insurance	188,970	180,272	6,189
Meals and welfare	153,108	122,628	4,210
Pension cost	110,560	105,776	3,631
Donation	235,800	-	-
Others	310,337	268,092	9,204
	$42,364,231	$30,537,236	$1,048,345

The employee bonus in 2011 and 2012 should be appropriated at 10% and 5%, respectively, of net income before deducting employee bonus expenses. Accrued bonuses as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Accrued bonus to employees for current year	$7,238,637	$976,327	$33,517
Cash bonuses approved by the stockholders for prior years	-	4,735,748	162,579
	$7,238,637	$5,712,075	$196,096

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

In September 2009, the Company's board of directors resolved to donate to the HTC Cultural and Educational Foundation NT$300,000 thousand, consisting of (a) the second and third floors of Taipei's R&D headquarters, with these two floors to be built at an estimated cost of NT$217,800 thousand, and (b) cash of NT$82,200 thousand. This donation excludes the land, of which the ownership remains with the Company. In June 2012, the Company handed over the foregoing donated building to the HTC Cultural and Educational Foundation. The actual construction cost was NT$218,636 thousand (US$7,506 thousand). The difference between the estimated construction cost and the actual construction cost was NT$836 thousand (US$29 thousand) and was recognized as an adjustment on the donation to the HTC Cultural and Educational Foundation in 2012.

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

18. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Warranty provisions	$12,755,264	$6,780,712	$232,782
Deferred credits - gain from intercompany transactions	1,151,531	2,354,363	80,826
Provisions for contingent loss on purchase orders	2,052,881	823,005	28,254
Other payables	709,129	461,518	15,844
Agency receipts	388,885	270,073	9,271
Advance receipts	134,748	86,700	2,976
Others	630,563	830,283	28,504
	$17,823,001	$11,606,654	$398,457

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

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

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

Deferred credits - gains on intercompany transactions were unrealized profit from intercompany downstream transactions.

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

19. PENSION PLAN

The pension plan under the Labor Pension Act ("LPA") is a defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Related pension costs were NT$350,450 thousand and NT$411,916 thousand (US$14,141 thousand) for the years ended December 31, 2011 and 2012, respectively.

Based on the defined benefit plan under the Labor Standards Law ("LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name. The Company recognized pension costs of NT$4,125 thousand and NT$3,991 thousand (US$137 thousand) for the years ended December 31, 2011 and 2012, respectively.

Under SFAS No. 18, "Accounting for Pensions," the pension expense calculated using actuarial method under the defined benefit pension plan should disclose the following information:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Service cost	$5,980	$5,481	$188
Interest cost	6,858	7,313	251
Projected return on plan assets	(9,206)	(9,893)	(340)
Amortization of unrecognized net transition obligation, net	-	-	-
Amortization of net pension benefit	492	1,090	38
Net pension cost	$4,124	$3,991	$137

The reconciliations between pension fund status and prepaid pension cost as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Present actuarial value of benefit obligation			
Vested benefit obligation	$10,026	$27,671	$950
Non-vested benefit obligation	192,737	188,898	6,485
Accumulated benefit obligation	202,763	216,569	7,435
Additional benefits on future salaries	162,889	161,807	5,555
Projected benefit obligation	365,652	378,376	12,990
Plan assets at fair value	(481,685)	(512,647)	(17,600)
Funded status	(116,033)	(134,271)	(4,610)
Unrecognized pension loss	(67,794)	(71,740)	(2,462)
Prepaid pension cost	($183,827)	($206,011)	($7,072)

Assumptions used in actuarially determining the present value of the projected benefit obligation were as follows:

	2011	2012
Weighted-average discount rate	2.00%	1.88%
Assumed rate of increase in future compensation	4.00%	4.00%
Expected long-term rate of return on plan assets	2.00%	1.88%

The payments from the fund amounted to NT$793 thousand in 2011.

20. STOCKHOLDERS' EQUITY

1. Capital Stock

The Company's outstanding common stock as of January 1, 2011 amounted to NT$8,176,532 thousand, divided into 817,653 thousand common shares at NT$10 par value. In June 2011, the stockholders approved the transfer of retained earnings of NT$403,934 thousand and employee bonuses of NT$40,055 thousand to capital stock. Also, in December 2011, the Company retired 10,000 thousand treasury shares amounting to NT$100,000 thousand. As a result, the amount of the Company's outstanding common stock as of December 31, 2012 increased to NT$8,520,521 thousand (US$292,510 thousand), divided into 852,052 thousand common shares at NT$10 (US$0.34) par value.

2. Global Depositary Receipts

In November 2003, the Company issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, the Company's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of stock dividends, the GDRs increased to 9,015.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of December 31, 2012, there were 7,820 thousand units of GDRs redeemed, representing 31,280.2 thousand common shares, and the outstanding GDRs represented 4,780.3 thousand common shares or 0.58% of the Company's common shares.

3. Capital Surplus

Under the Company Law, capital surplus may be used to offset a deficit. The capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, merger and treasury stock transactions) and donations may be capitalized once a year within a certain percentage of a company's paid-in capital. However, 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 December 31, 2012 was NT$14,809,608 thousand (US$508,415 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 of NT$20,309 thousand in treasury stock transactions and NT$435 thousand in expired stock options. As a result, as of December 31, 2012, capital surpluses were NT$1,730,458 thousand (US$59,407 thousand) from treasury stock transactions and NT$37,068 thousand (US$1,273 thousand) from expired stock options.

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 December 31, 2012 was NT$18,037 thousand (US$619 thousand). 。

Merger

The additional paid-in capital from a merger with IA Style (Note 14) 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 the foregoing merger. As a result, the additional paid-in capital from a merger as of December 31, 2012 was NT$24,423 thousand (US$838 thousand).。

4. Appropriation of Retained Earnings and Dividend Policy

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

a. To pay taxes
b. To cover accumulated losses, if any
c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital
d. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above items (a) to (c)
e. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above items (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 the affiliates' employees who meet specific requirements prescribed by the board of directors.
f. For any remainder, the board of directors should propose allocation ratios based on the dividend policy set forth in the Company's Articles and propose them at the stockholders' meeting.

Legal reserve should be appropriated until it has reached a 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 a company's paid-in capital, the excess may be transferred to capital or distributed in cash.

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

The appropriations of earnings for 2010 and 2011 were approved in the stockholders' 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$	NT$	NT$	US$ (Note 3)
Legal reserve	$-	$-	$6,197,580	$212,763	$-	$-
Special reserve	580,856	-	(580,856)	(19,941)	-	-
Cash dividends	29,891,089	37.00	33,249,085	1,141,443	40.00	1.37
Stock dividends	403,934	0.50	-	-	-	-

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

	For 2010		For 2011			
	Amounts Approved in Stockholders' Meetings	Amounts Recognized in Financial Statements	Amounts Approved in Stockholders' Meetings		Amounts Recognized in Financial Statements	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Cash	$4,245,853		$7,238,637	$248,503		
Stock	4,245,851		-	-		
	$8,491,704	$8,491,704	$7,238,637	$248,503	$7,238,637	$248,503

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 stockholders' meeting. The approved amounts of the bonus to employees were the same as the accrual amounts reflected in the financial statements for 2010 and 2011.

The employee bonus for 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.

As of March 18, 2013, the date of the accompanying independent auditors' report, the 2012 earnings appropriation has not been approved by the Company's Board of directors. Information about earnings appropriation and the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

21. TREASURY STOCK

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

On July 16, 2011, the Company's board of directors passed a resolution to buy back from the open market 10,000 thousand shares for each of the periods between July 18, 2011 and August 17, 2011 and between August 18, 2011 and September 17, 2011, with the repurchase price ranging from NT$900 to NT$1,100 per share. When the share price was below the price floor of the range, the Company would continue to buy back its shares. The Company bought back 20,000 thousand shares for NT$16,086,098 thousand during the repurchase periods, retired 10,000 thousand shares in December 2011 and completed the capital amendment registration in January 2012.

On December 20, 2011, the Company's board of directors passed a resolution to buy back 10,000 thousand of its shares from the open market between December 20, 2011 and February 19, 2012, with the repurchase price ranging from NT$445 (US$15) to NT$650 (US$22) per share. When the share price was below the price floor of the range, the Company would continue to buy back its shares. The Company bought back 6,914 thousand shares (bought back 100 thousand shares in 2011 and 6,814 thousand shares in 2012) for NT$3,750,056 thousand (US$128,740 thousand) during the repurchase period. Other treasury stock information for 2011 and 2012 were as follows:

(In Thousands of Shares)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
2011				
To maintain the Company's credibility and stockholders' interest	-	10,000	10,000	-
To transfer shares to the Company's employees	9,786	10,100	5,875	14,011
	9,786	20,100	15,875	14,011
2012				
To transfer shares to the Company' s employees	14,011	6,814	-	20,825

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of a 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 realized capital surplus. In addition, the Company should not pledge its treasury shares nor exercise rights to receive dividends and to vote.。

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

As of December 31, 2011 and 2012, personnel expenses, depreciation and amortization were as follows:

Function / Expense Item	2011			2012					
	NT$			NT$			US$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	$5,628,162	$13,383,926	$19,012,088	$5,169,630	$7,273,740	$12,443,370	$177,474	$249,708	$427,182
Salary	4,564,767	12,511,284	17,076,051	4,010,009	6,271,378	10,281,387	137,664	215,297	352,961
Insurance	366,969	305,644	672,613	440,581	384,474	825,055	15,125	13,199	28,324
Pension cost	156,967	197,607	354,574	167,817	248,090	415,907	5,761	8,517	14,278
Other	539,459	369,391	908,850	551,223	369,798	921,021	18,924	12,695	31,619
Depreciation	504,199	424,575	928,774	687,259	605,690	1,292,949	23,594	20,793	44,387
Amortization	387,103	9,919	397,022	4,300	520,091	524,391	147	17,855	18,002

23. INCOME TAX

Income taxes payable as of December 31, 2011 and 2012 were computed as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Income before income tax	$69,849,671	$16,925,103	$581,040
Unrealized royalties	13,500,587	2,578,406	88,517
Unrealized intercompany gains	806,075	1,202,832	41,294
Capitalized expense	21,421	1,072,791	36,829
Unrealized bad-debt expenses	523,546	758,079	26,025
Unrealized sales allowance	176,442	395,378	13,573
Realized valuation gains on financial instruments	193,408	239,451	8,220
Unrealized materials and molding expenses	456,098	55,276	1,898
Unrealized (realized) marketing expenses	9,824,170	(10,025,081)	(344,162)
Unrealized (realized) warranty expense	3,698,214	(5,974,552)	(205,107)
Unrealized (realized) contingent losses on purchase orders	110,734	(1,229,876)	(42,222)
Realized exchange losses, net	(893,584)	(939,650)	(32,258)
Unrealized (realized) losses on obsolescence and scrappage of inventories	1,194,497	(750,832)	(25,776)
Gains on equity-method investments	(2,718,362)	(617,608)	(21,203)
Realized pension cost	(24,882)	(22,184)	(762)
Realized investment loss	(40,986)	-	-
Realized salary expense	(700,000)	-	-
Others	(89,782)	150,560	5,169
Total income	95,887,267	3,818,093	131,075
Less: Tax-exempt income	(77,353,700)	(1,841,362)	(63,214)
Taxable income	18,533,567	1,976,731	67,861
Tax rate	×17%	×17%	×17%
Income tax payable determined pursuant to the Income Tax Law (regular income taxes)	$3,150,706	$336,044	$11,536

(Continued)

	2011	2012	
	NT$	NT$	US$ (Note 3)
Alternative minimum tax	$9,588,529	$382,378	$13,127
Add: Unappropriated earnings (additional 10% income tax)	865,772	2,310,999	79,337
Deduct: Investment research and development tax credits	(865,772)	(1,351,783)	(46,407)
Prepaid and withheld income tax	(61,661)	(43,810)	(1,504)
Add: Prior years' income tax payable	126,222	126,222	4,333
Income tax payable	$9,653,090	$1,424,006	$48,886

(Concluded)

As of December 31, 2011 and 2012, the regular income taxes were less than the alternative minimum tax; thus, based on the "Income Basic Tax Act," the income taxes payable should include the differences between the regular income taxes and the alternative minimum tax. As a result, the current income taxes payable as of December 31, 2011 and 2012 should be NT$ 9,588,529 thousand and NT$382,378 thousand (US$13,127 thousand), respectively.

In August 2012, the Legislative Yuan passed the amendment of Article 8 of the "Income Basic Tax Act," which increased alternative minimum tax rate from 10% to 12%, effective January 1, 2013. The Company thus reassessed deferred tax assets or liabilities in accordance with the revised article.

Deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Temporary differences			
Unrealized royalties	$4,817,745	$5,256,074	$180,441
Unrealized marketing expenses	4,344,683	2,640,419	90,646
Unrealized warranty expense	2,168,395	1,152,721	39,573
Allowance for loss on decline in value of inventory	787,303	659,661	22,646
Unrealized bad-debt expenses	153,355	282,229	9,689
Capitalized expense	69,244	251,619	8,638
Unrealized materials and molding expenses	138,502	147,899	5,077
Unrealized sales allowance	71,874	139,088	4,775
Unrealized contingent losses on purchase orders	348,990	139,911	4,803
Unrealized exchange losses, net	138,092	42,820	1,470
Others	102,064	369,993	12,702
Tax credit carryforwards	3,123,594	1,644,674	56,462
Total deferred tax assets	16,263,841	12,727,108	436,922
Less: Valuation allowance	(10,962,549)	(6,265,293)	(215,088)
Total deferred tax assets, net	5,301,292	6,461,815	221,834
Deferred tax liabilities			
Unrealized pension cost	(31,251)	(35,022)	(1,202)
Unrealized valuation gains on financial instruments	(43,668)	(2,961)	(102)
Others	(112,551)	(112,551)	(3,863)
Deferred tax liabilities offset against deferred tax assets, net	5,113,822	6,311,281	216,667
Less: Current portion	(1,517,302)	(1,948,496)	(66,892)
Deferred tax assets - non-current	$3,596,520	$4,362,785	$149,775

The income tax expenses in 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Current income tax	$9,588,529	$1,341,594	$46,057
Less: Effect of tax law changes	-	(1,298,103)	(44,564)
(Less) add: (Increase) decrease in deferred income tax assets	(1,768,812)	100,644	3,455
Add: Underestimation of prior years' income tax	54,158	-	-
Income tax	$7,873,875	$144,135	$4,948

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

The Year of Occurrence	Item Exempt from Corporate Income Tax	Exemption Period
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	2015.01.01-2018.09.30

Information on the tax credit carryforwards as of December 31, 2012 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	$81,540	$1,644,674	$56,462	2013

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

The imputation credit account ("ICA") information in 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Balance of ICA	$2,523,575	$5,966,033	$204,814
Unappropriated earnings from 1998	75,762,315	53,677,474	1,842,750
Actual/estimated creditable ratio (including income tax payable)	15.99% (Actual ratio)	13.53% (Estimated ratio)	13.53% (Estimated ratio)

The actual creditable ratios for distribution of earnings of 2011 was 15.99% and estimated creditable ratios for distribution of earnings of 2012 was 13.53%. In the calculation of the expected creditable ratio for 2012, the income taxes payable as of December 31, 2012 was included.

Under Income Tax Act, for payment of profit-seeking enterprise income tax for the year of 1998 and the years thereafter, a profit-seeking enterprise may, when making surplus earning distribution, cause its stockholders or association/society members to deduct from the gross amount of tax payable as declared in their respective annual consolidated income tax return for the current year the amount of income tax payable by them on the dividend or the surplus earning distributed to them by the said profit-seeking enterprise. The imputation credit allocated to stockholders is based on its balance as of the date of the dividend distribution. The estimated creditable ratio for 2012 may change when the actual distribution of the imputation credit is made.

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

24. EARNINGS PER SHARE

Earnings per share ("EPS") before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. EPS in 2011 were calculated after the average number of shares outstanding that 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 2011 and 2012 is as follows:

					2011
	Amount (Numerator)		Shares	EPS (In Dollars)	
	Before Income Tax NT$	After Income Tax NT$	(Denominator) (In Thousands)	Before Income Tax NT$	After Income Tax NT$
Basic EPS	$69,849,671	$61,975,796	845,319	$82.63	$73.32
Bonus to employees	-	-	16,527		
Diluted EPS	$69,849,671	$61,975,796	861,846	$81.05	$71.91

					2012
	Amount (Numerator)		Shares	EPS (In Dollars)	
	Before Income Tax NT$	After Income Tax NT$	(Denominator) (In Thousands)	Before Income Tax NT$	After Income Tax NT$
Basic EPS	$16,925,103	$16,780,968	831,980	$20.34	$20.17
Bonus to employees	-	-	3,748		
Diluted EPS	$16,925,103	$16,780,968	835,728	$20.25	$20.08

					2012
	Amount (Numerator)		Shares	EPS (In Dollars)	
	Before Income Tax US$ (Note 3)	After Income Tax US$ (Note 3)	(Denominator) (In Thousands)	Before Income Tax US$ (Note 3)	After Income Tax US$ (Note 3)
Basic EPS	$581,040	$576,091	831,980	$0.70	$0.69
Bonus to employees	-	-	3,748		
Diluted EPS	$581,040	$576,091	835,728	$0.70	$0.69

25. FINANCIAL INSTRUMENTS

1. Fair Value of Financial Instruments

(1) Non-derivative financial instruments

						December 31
	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	$736,031	$736,031	$-	$-	$-	$-
Held-to-maturity financial assets - current	-	-	101,459	3,483	101,436	3,482
Available-for-sale financial assets - non-current	279	279	197	7	197	7
Held-to-maturity financial assets - non-current	204,597	203,783	-	-	-	-
Financial assets carried at cost - non-current	515,861	515,861	515,861	17,710	515,861	17,710

(2) Derivative financial instruments

						December 31
	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	$256,868	$256,868	$6,950	$238	$6,950	$238
Hedging derivative assets - current	-	-	204,519	7,021	204,519	7,021

2. Methods and Assumptions Used in Determining Fair Values of Financial Instruments

The financial instruments listed above don't include 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 because of their short maturities.

For other non-current financial assets or liabilities, their fair values are 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 or 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 other financial 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.

3. Fair Values of Financial Instruments Based on Quoted Market Prices or Estimates Made through Valuation Methods

	Fair Values Based on Quoted Market Prices			Fair Values Based on Estimates Made through Valuation Methods		
		December 31			December 31	
	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	$-	$-	$-	$256,868	$6,950	$238
Hedging derivative assets - current	-	-	-	-	204,519	7,021
Available-for-sale financial assets - current	736,031	-	-	-	-	-
Held-to-maturity financial assets - current	-	101,436	3,482	-	-	-
Available-for-sale financial assets - non-current	279	197	7	-	-	-
Held-to-maturity financial assets - non-current	203,783	-	-	-	-	-
Financial assets carried at cost - non-current	-	-	-	515,861	515,861	17,710

The Company recognized unrealized gain of NT$3,824 thousand and unrealized loss of NT$4,713 thousand (US$162 thousand) in 2011 and 2012, respectively, under stockholders' equity for the changes in fair value of available-for-sale financial assets.

As of December 31, 2011 and 2012, financial assets exposed to fair value interest rate risk amounted to NT$204,597 thousand NT$101,459 thousand (US$3,483 thousand) respectively; financial assets exposed to cash flow interest rate risk amounted to NT$57,082,965 thousand and NT$18,602,147 thousand (US$638,612 thousand), respectively.

4. Financial Risks

(1) 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 on these contracts compensate for the losses on the hedged items and vice versa. Thus, market risk is not material.

(2) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties breach contracts. Some factors affecting credit risk are credit risk concentration, components of financial assets and the amounts of contracts. The counter-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Thus, credit risk is not expected to be material.

(3) Liquidity risk

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

Under the regulations of the Securities and Futures Bureau, an entity should disclose its investees' derivative transactions. For the Company, the objective of an indirect subsidiary's using derivative contracts is to hedge exchange rate fluctuation risks. However, since the indirect subsidiary's derivative contracts did not meet the criteria for hedge accounting, these contracts were classified as financial assets or financial liabilities held for trading. The fair values of these derivatives were determined using valuation techniques incorporating certain estimates, and changes in fair value of these derivatives were recognized directly in profit or loss for the period. Other information on the derivative contracts that the subsidiary entered into are briefly disclosed as follows:

Saffron Digital Ltd.

A subsidiary of the Company acquired Saffron Digital Ltd. ("Saffron") in January 2011. Saffron used forward exchange contracts and had settled these contracts as of December 31, 2011. The realized settlement loss on these contracts was NT$1,074 thousand.

26. RELATED-PARTY TRANSACTIONS

1. The related parties were as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Way-Lien Technology Co., Ltd	Significant stockholder of the Company
Captec Partners Management Corp.	Main director is the chairperson of the Company
WTI Investment International, Ltd.	Its significant stockholder in substance is the Company's chairperson
VIABASE CO., LTD.	Chairperson of its parent company is the same as the Company's
Faith Hope & Love Limited	Its significant stockholder in substance is the Company's chairperson
Wozai Information Technology (Beijing), LLC	Its significant stockholder in substance is the Company's chairperson
Openmoko, Inc.	Its significant stockholder in substance is the Company's chairperson
VIA Telecom Company Limited	Its significant stockholder in substance is the Company's chairperson
Employees' Welfare Committee	Employees' Welfare Committee of the Company
HTC Cultural and Educational Foundation	A non-profit organization with over one third of its total funds donated by the Company
HTC Social Welfare and Charity Foundation	A non-profit organization with over one third of its total funds donated by the Company
H.T.C. (B.V.I.) Corp.	Subsidiary
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary

(Continued)

Related Party	Relationship with the Company
HTC Investment Corporation	Subsidiary
HTC I Investment Corporation	Subsidiary
HTC Investment One (BVI) Corp.	Subsidiary
FunStream Corporation	Subsidiary
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer (H.K.) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) PTY. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Philippines Corporation	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
PT. High Tech Computer Indonesia	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Thailand) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Innovation Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Communication Co., Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC HK, Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Holding Cooperatief U.A.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Communication Technologies (SH)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
S3 Graphics Co., Ltd.	Subsidiary of HTC Investment One (BVI) Corp.
Yoda Co., Ltd.	Subsidiary of HTC Investment Corporation
HTC Corporation (Shanghai WGQ)	Subsidiary of HTC HK, Limited.
HTC Electronics (Shanghai) Co., Ltd.	Subsidiary of HTC HK, Limited.
HTC Netherlands B.V.	Subsidiary of HTC Holding Cooperatief U.A.
HTC EUROPE CO., LTD.	Subsidiary of HTC Netherlands B.V.
HTC BRASIL	Subsidiary of HTC Netherlands B.V.
HTC Belgium BVBA/SPRL	Subsidiary of HTC Netherlands B.V.
HTC NIPPON Corporation	Subsidiary of HTC Netherlands B.V.
HTC FRANCE CORPORATION	Subsidiary of HTC Netherlands B.V.
HTC South Eastern Europe Limited liability Company	Subsidiary of HTC Netherlands B.V.
HTC Nordic ApS.	Subsidiary of HTC Netherlands B.V.
HTC Italia SRL	Subsidiary of HTC Netherlands B.V.
HTC Germany GmbH.	Subsidiary of HTC Netherlands B.V.
HTC Iberia S.L.	Subsidiary of HTC Netherlands B.V.
HTC Poland sp. z o.o.	Subsidiary of HTC Netherlands B.V.
Saffron Media Group Ltd.	Subsidiary of HTC Netherlands B.V.
HTC Communication Canada, Ltd.	Subsidiary of HTC Netherlands B.V.
HTC Luxembourg S.a.r.l.	Subsidiary of HTC Netherlands B.V.
HTC Norway AS	Subsidiary of HTC Netherlands B.V.
HTC Russia LLC	Subsidiary of HTC Netherlands B.V.
HTC Communication Sweden AB	Subsidiary of HTC Netherlands B.V.
HTC Middle East FZ-LLC	Subsidiary of HTC Netherlands B.V.
HTC America Holding Inc.	Subsidiary of HTC EUROPE CO., LTD.
ABAXIA SAS	Subsidiary of HTC France Corporation
HTC America Inc.	Subsidiary of HTC America Holding Inc.
One & Company Design Inc.	Subsidiary of HTC America Holding Inc.
HTC America Innovation Inc.	Subsidiary of HTC America Holding Inc.
HTC America Content Services, Inc.	Subsidiary of HTC America Holding Inc.
Dashwire, Inc.	Subsidiary of HTC America Holding Inc.
Inquisitive Minds, Inc.	Subsidiary of HTC America Holding Inc.
Beats Electronics, LLC	Investment received in October 2011. The Company lost control of the subsidiary in August 2012 due to the partial disposal of its shares but continued to account for the investment by the equity method.
HTC BLR	Subsidiary of ABAXIA SAS
Saffron Digital Ltd.	Subsidiary of Saffron Media Group Ltd.
Saffron Digital Inc.	Subsidiary of Saffron Media Group Ltd.

(Concluded)

2. Major transactions with related parties are summarized below:

(1) Purchases of Inventories and Services

	December 31				
	2011		2012		
	Amount	% to Total Net Purchases	Amount		% to Total Net Purchases
Related Party	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	$1,217,889	1	$1,710,137	$58,709	1
VIA Telecom Company Limited	-	-	63,675	2,186	-
Chander Electronics Corp.	172,540	-	-	-	-
	$1,390,429	1	$1,773,812	$60,895	1

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

(2) Sales and Services Provided

	2011		2012		
	Amount	% to Total Revenues	Amount		% to Total Revenues
Related Party	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$201,020,041	44	$53,286,601	$1,829,332	20
HTC Communication Co., Ltd.	20,728,859	5	46,501,980	1,596,415	17
HTC NIPPON Corporation	780	-	4,261,905	146,311	1
Faith Hope & Love Limited	-	-	2,236,688	76,786	1
Employees' Welfare Committee	52,540	-	220,037	7,554	-
Others	43,529	-	128,247	4,403	-
	$221,845,749	49	$106,635,458	$3,660,801	39

The selling prices for products sold to related parties were similar to those sold to third parties, except for HTC America Inc., HTC Communication Co., Ltd., HTC Employees' Welfare Committee and HTC NIPPON Corporation. The selling prices for products sold to Faith Hope & Love Limited have no comparison with those sold to third parties. The collection terms for products sold to related parties were similar to those for sales to third parties, except HTC America Inc. and Faith Hope & Love Limited.

(3) Accounts Receivable

	December 31				
	2011		2012		
	Amount	% to Total Accounts Receivable	Amount		% to Total Accounts Receivable
Related Party	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$29,333,501	44	$11,604,323	$398,377	28
HTC Communication Co., Ltd.	3,600,517	6	4,399,167	151,024	11
HTC NIPPON Corporation	345	-	3,179,837	109,164	8
Faith Hope & Love Limited	-	-	218,468	7,500	-
Others	42,906	-	66,335	2,277	-
	$32,977,269	50	$19,468,130	$668,342	47

(4) Accounts Payable

	December 31				
	2011		2012		
	Amount	% to Total Accounts Payable	Amount		% to Total Accounts Payable
Related Party	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	$3,639,231	5	$2,883,716	$98,998	4
VIA Telecom Company Limited	-	-	19,269	662	-
	$3,639,231	5	$2,902,985	$99,660	4

(5) Other Receivable

	December 31				
	2011		2012		
	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
Related Party	NT$		NT$	US$ (Note 3)	
Beats Electronics, LLC	$-	-	$6,600,093	$226,582	86
HTC America Inc.	74,103	7	18,147	623	-
HTC EUROPE CO., LTD.	2,129	-	14,543	499	-
Others	2,845	-	941	32	-
	$79,077	7	$6,633,724	$227,736	86

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

(6) Prepaid Expenses

	December 31				
	2011		2012		
	Amount	% to Total Prepayment	Amount		% to Total Prepayment
Related Party	NT$		NT$	US$ (Note 3)	
One & Company Design	$-	-	$3,840	$132	-
HTC America Innovation Inc.	378,488	5	-	-	-
HTC India Private Limited	73,015	2	-	-	-
Others	95,964	-	-	-	-
	$547,467	7	$3,840	$132	-

(7) Accrued Expenses

	December 31				
	2011		2012		
	Amount	% to Total Accrued Expenses	Amount		% to Total Accrued Expenses
Related Party	NT$		NT$	US$ (Note 3)	
HTC EUROPE CO., LTD.	$770,897	2	$830,891	$28,525	3
High Tech Computer Asia Pacific Pte. Ltd.	422,582	1	227,614	7,814	1
HTC America Innovation Inc.	342,567	1	197,472	6,779	1
HTC (Australia and New Zealand) PTY. Ltd.	126,514	-	130,971	4,496	1
HTC HK, Limited	402,238	1	66,001	2,266	-
HTC Middle East FZ-LLC	-	-	57,963	1,990	-
Communication Global Certification Inc.	34,151	-	55,892	1,919	-
HTC Communication Canada, Ltd.	9,116	-	54,319	1,865	-
HTC India Private Limited	284,645	1	53,844	1,848	-
ABAXIA SAS	32,727	-	49,142	1,687	-
HTC (Thailand) Limited	134,981	-	42,602	1,463	-
HTC BRASIL	-	-	38,458	1,320	-
PT. High Tech Computer Indonesia	778	-	29,770	1,022	-
Saffron Digital Ltd.	35,573	-	15,774	541	-
HTC Nordic ApS	26,012	-	8,146	280	-
HTC Belgium BVBA/SPRL	80,265	-	7,541	259	-
HTC Innovation Limited	23,866	-	3,712	127	-
HTC Cultural and Educational Foundation	217,800	1	-	-	-
Others	82,254	-	83,012	2,850	-
	$3,026,966	7	$1,953,124	$67,051	6

(8) Other Payables to Related Parties

	December 31				
	2011		2012		
	Amount	% to Total Other Payables	Amount		% to Total Other Payables
Related Party	NT$		NT$	US$ (Note 3)	
HTC Communication Technologies (SH)	$-	-	$68,159	$2,340	15
HTC EUROPE CO., LTD.	101,996	14	60,115	2,064	13
HTC America Inc.	212,272	30	48,769	1,674	11
HTC Corporation (Shanghai WGQ)	32,261	5	27,924	959	6
HTC HK, Limited	705	-	26,825	921	6
High Tech Computer Asia Pacific Pte. Ltd.	6,145	1	8,497	292	2
HTC Nippon Corporation	21,810	3	1,252	43	-
Saffron Digital Ltd.	47,460	7	5	-	-
Others	9,678	1	1,504	51	-
	$432,327	61	$243,050	$8,344	53

(9) Outsourcing Expenses

	December 31				
	2011		2012		
	Amount	% to Total Outsourcing Expenses	Amount		% to Total Outsourcing Expenses
Related Party	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai) Co., Ltd.	$24,886,361	99	$12,672,806	$435,058	99

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

(10) Warranty Expenses

	December 31				
	2011		2012		
	Amount	% to Warranty Expenses	Amount		% to Warranty Expenses
Related Party	NT$		NT$	US$ (Note 3)	
HTC Corporation (Shanghai WGQ)	$222,830	2	$281,055	$9,649	3
High Tech Computer Asia Pacific Pte. Ltd.	71,402	-	92,319	3,169	1
HTC EUROPE CO., LTD.	270,479	2	78,467	2,694	1
HTC HK, Limited	13,097	-	34,881	1,198	1
HTC BRASIL	31,791	-	20,781	713	-
HTC Nodic ApS	-	-	13,791	473	-
HTC (Australia and New Zealand) PTY. Ltd.	9,629	-	12,954	445	-
Others	24,512	-	27,939	959	-
	$643,740	4	$562,187	$19,300	6

Warranty expenses resulted from authorizing the above related parties to provide after-sales services, and the amounts calculated were based on the actual repair quantities during the warranty periods.

(11) Commission Expenses

	December 31				
	2011		2012		
	Amount	% to Total Commission Expenses	Amount		% to Total Commission Expenses
Related Party	NT$		NT$	US$ (Note 3)	
HTC EUROPE CO., LTD.	$5,817,831	80	$4,907,709	$168,482	77
HTC Belgium BVBA/SPRL	498,155	7	390,922	13,420	6
HTC Germany GmbH.	265,462	4	229,151	7,867	4
HTC FRANCE CORPORATION	181,857	2	222,118	7,625	3
HTC Nordic ApS.	265,199	4	175,746	6,034	3
HTC Middle East FZ-LLC	-	1	134,707	4,624	2
Others	289,988	2	362,187	12,434	5
	$7,318,492	100	$6,422,540	$220,486	100

Commission expenses resulted from authorizing the related parties to expand business overseas.

(12) Service and Marketing Fees

	December 31				
	2011		2012		
	Amount	% to Total Service Expenses	Amount		% to Total Service Expenses
Related Party	NT$		NT$	US$ (Note 3)	
HTC America Innovation Inc.	$1,845,128	7	$1,663,379	$57,104	8
High Tech Computer Asia Pacific Pte. Ltd.	1,042,726	4	1,055,544	36,237	5
HTC (Australia and New Zealand) PTY. Ltd.	711,604	3	888,835	30,514	4
HTC Communication Technologies (SH)	-	-	681,156	23,384	3
HTC India Private Limited	450,601	2	542,731	18,632	3
HTC HK, Limited	691,116	3	342,849	11,770	2
Communication Global Certification Inc.	237,324	1	299,656	10,287	2
ABAXIA SAS	281,221	1	292,180	10,030	1
HTC Communication Canada, Ltd.	-	-	281,591	9,667	1
Saffron Digital Ltd.	251,774	1	278,040	9,545	1
One & Company Design, Inc.	269,350	1	199,147	6,837	1
HTC NIPPON Corporation	156,130	-	168,177	5,773	1
HTC Malaysia Sdn. Bhd.	232,818	1	148,749	5,107	1
HTC (Thailand) Ltd.	239,050	1	142,607	4,896	1
HTC BRASIL	169,549	-	98,418	3,379	-
HTC Innovation Limited	343,031	2	22,135	760	-
Others	166,705	-	270,052	9,271	1
	$7,088,127	27	$7,375,246	$253,193	35

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

(13) Leasing - Lessee

Rental revenues

	December 31				
	2011		2012		
	Amount	% to Total Rental Revenues	Amount		% to Total Rental Revenues
Related Party	NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$920	100	$-	$-	-

The Company lease the unused parcel of land and building to the aforementioned related parties. The rental revenue was determined at the prevailing rates in the surrounding area.

Operating expenses - rental expenses

	December 31				
	2011		2012		
	Amount	% to Total Rental Expenses	Amount		% to Total Rental Expenses
Related Party	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$5,209	2	$5,209	$179	5

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

(14) Donation

	December 31				
	2011		2012		
	Amount	% to Total Donation Expenses	Amount		% to Total Donation Expenses
Related Party	NT$		NT$	US$ (Note 3)	
HTC Cultural and Educational Foundation	$150,000	39	$836	$29	14
HTC Social Welfare and Charity Foundation	150,000	39	-	-	-
	$300,000	78	$836	$29	14

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

(15) Trademark and Technology License Agreement

Beats Electronics, LLC

To enhance 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 was NT$269,565 thousand (US$9,254 thousand) in 2012. As of December 31, 2012, the unpaid royalty was NT$130,960 thousand (US$4,496 thousand).

Dashwire, Inc.

To enhance the product diversity, the Company entered into a technology license agreement with Dashwire, Inc. The agreement took effect in January 2012 and will end in December 2012. The royalty expense was NT$20,620 thousand (US$708 thousand) in 2012. The royalty prepayment as of December 31, 2012 was NT$28,999 thousand (US$996 thousand).

Openmoko, Inc.

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

(16) Property Transaction

The Company bought the auxiliary facilities of buildings from Chander Electronics Corp. for NT$6,555 in 2011 and NT$55,891 thousand (US$1,919 thousand) in 2012.

The Company bought the machinery from HTC America Innovation Inc. for NT$23,421 thousand (US$804 thousand) in 2012. As of December 31, 2012, there was NT$23,421 thousand (US$804 thousand) unpaid and was accounted for under "payable for purchase of equipment".

In 2012, the Company bought building equipment from VIA Technologies, Inc. for NT$5,264 thousand (US$181 thousand). As of December 31, 2012, there was NT$2,127 thousand (US$73 thousand) unpaid and was accounted for under "payable for purchase of equipment".

S3 Graphics Co, Ltd. ("S3 Graphics") owns patents on key graphics technologies, which can strengthen the Company's patent portfolio and counteract the patent rights of competitors and potential licensors around the globe. In the meeting on July 6, 2011, the Board of Directors resolved to invest in S3 Graphics, and in November 2011, the Company obtained all patents owned by S3 Graphics through the purchase of all the shares of S3 Graphics from VIABASE CO., LTD. and WTI Investment International, Ltd. by increasing the capital of HTC Investment One (BVI) Corporation by an amount of US$300,000 thousand.

(17) Patent Litigation

Note 30 has more information.

(18) Loan

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

		2012			
Name of Counterparty	Account	Maximum Balance	Ending Balance	Interest Rate	Interest Revenue
Beats Electronics, LLC	Other receivable	$6,554,025 (USD225,000)	$6,554,025 (USD225,000)	1.9466%-3.8188%	$82,027 (US$2,816)

3. Compensation of Directors, Supervisors and Management Personnel

	2011	2012	
	NT$	NT$	US$ (Note 3)
Salaries	$106,673	$124,825	$4,285
Incentives (Note a)	67,282	14,186	487
Special compensation	-	-	-
Bonus (Note b)	680,387	-	-
	$854,342	$139,011	$4,772

Note: a. Due to uncertainty of distribution of part of the incentives for 2012, the disclosure of incentives for 2012 was only for the amount that would be distributed exactly.

b. The information about bonus to employees for 2012 is not available since the related proposal had not yet been made in the stockholders' meeting. The compensation of directors, supervisors and management personnel for 2011 included bonuses appropriated from the earnings of 2011, which were approved by the stockholders in the annual meeting in 2012.

The Company's disclosure of the compensation of directors, supervisors, president, vice president and management personnel for 2011 and 2012 was in compliance with Order VI-0970053275 issued by the Financial Supervisory Commission under the Executive Yuan. The disclosure of the compensation included salaries, incentives, special compensation, business expenses and bonus.

27. PLEDGED ASSETS

To protect the rights and interests of its employees, the Company placed an accrued employee bonus of NT$3,645,820 thousand (US$125,161 thousand) in a trust account in September 2012. The trust account, which is under restricted assets - current, amounted to NT$3,645,820 thousand (US$125,161 thousand) as of December 31, 2012.

As of December 31, 2011 the Company had provided time deposits of NT$63,900 thousand to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

28. COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, unused letters of credit amounted to US$60 thousand and EUR107 thousand.

29. SIGNIFICANT CONTRACTS

Patent Agreements

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

Contractor	Contract Term	Description
Apple, Inc.	November 11, 2012 - November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalties payable as prescribed.
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use an embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: a. If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license; 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 stated 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 stated 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.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated 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.

(Continued)

(Concluded)

30. OTHER EVENTS

1. 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, IPCom has filed motion for reconsideration on the two patents with the Appeal court. In December 2012, the district court has granted a stay on case currently in the US pending appeal decision.

As of March 18, 2013, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

b. From March 2010 onwards, Apple Inc. ("Apple") and the Company have filed patent infringement actions against the other respectively in the U.S. International Trade Commission ("ITC"), U.S. District Court for the District of Delaware, German district courts, and English High Court. On November 11, 2012, the two companies have reached a global settlement that includes the dismissal of all current lawsuits and a ten-year license agreement. The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalties payable as prescribed.

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. In January 2013, a U.S. bankruptcy judge presently approved the sale of 1,100 Kodak digital image patents including the patents-in-suit to a third party. All litigation procedures involving HTC have been stayed.

d. In May 2012, Nokia Corporation ("Nokia") filed a lawsuit against the Company, HTC America, Inc. and Exedea, Inc. ("the Company") concurrently with the ITC, Delaware court and the District Courts of Mannheim, Munich and Dusseldorf in Germany ("German courts"), alleging that the Company 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 March 18, 2013, the date of the accompanying independent Auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

e. The Company had shared lawsuit-related costs on the basis of common benefits and agreements between the Company and its vendors and customers. For 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 contingent lawsuits on its business and financial condition, and recognized its estimable cost.

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

	December 31			
	2011		2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets				
Monetary items				
USD	$3,018,210	30.28	$2,687,730	29.13
EUR	485,148	39.19	301,870	38.42
GBP	44,226	46.73	58,375	47.09
JPY	150,186	0.3906	9,903,351	0.3383
RMB	1,126,526	4.77	1,432,210	4.68
Investments accounted for by the equity method				
USD	412,799	30.28	409,395	29.13
SGD	996,626	23.32	1,191,511	23.85
Financial liabilities				
Monetary items				
USD	3,266,412	30.28	3,122,686	29.13
EUR	590,266	39.19	302,928	38.42
GBP	56,572	46.73	51,689	47.09
JPY	434,508	0.3906	17,002,616	0.3383
RMB	678,211	4.77	702,614	4.68

31. OPERATING SEGMENT

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

5. INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders

HTC Corporation

We have audited the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of December 31, 2011 and 2012, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2011 and 2012, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

Our audits also comprehended the translation of the 2012 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

March 18, 2013

Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2011 AND 2012

(In Thousands, Except Par Value)

	2011	2012	
ASSETS	NT$	NT$	US$ (Note 3)
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 5)	$87,501,508	$53,878,067	$1,849,637
Financial assets at fair value through profit or loss (Notes 2, 6 and 26)	256,868	6,950	238
Available-for-sale financial assets - current (Notes 2, 7 and 26)	736,031	37,902	1,301
Held-to-maturity financial assets - current (Notes 2, 13 and 26)	-	101,459	3,483
Hedging derivative assets - current (Notes 2, 8 and 26)	-	204,519	7,021
Notes and accounts receivable, net (Notes 2, 9 and 27)	64,719,791	41,253,826	1,416,246
Other receivables - related parties (Note 27)	966	6,600,093	226,582
Other current financial assets (Note 10)	1,404,945	1,172,090	40,238
Inventories (Notes 2 and 11)	28,430,590	23,809,377	817,377
Prepayments (Note 12)	6,507,516	4,965,814	170,477
Deferred income tax assets - current (Notes 2 and 24)	2,246,196	3,530,215	121,193
Restricted assets - current (Note 28)	-	3,645,860	125,162
Other current assets	1,055,480	452,808	15,545
Total current assets	192,859,891	139,658,980	4,794,500
LONG-TERM INVESTMENTS			
Available-for-sale financial assets - non-current (Notes 2, 7 and 26)	279	197	7
Held-to-maturity financial assets - non-current (Notes 2, 13 and 26)	204,597	-	-
Financial assets carried at cost - non-current (Notes 2, 14 and 26)	3,408,654	4,304,907	147,788
Investments accounted for by the equity method (Notes 2 and 15)	71,732	5,892,168	202,278
Total long-term investments	3,685,262	10,197,272	350,073
PROPERTIES (Notes 2, 16 and 27)			
Cost			
Land	7,614,167	7,615,546	261,442
Buildings and structures	5,999,807	11,817,745	405,704
Machinery and equipment	11,298,070	13,308,358	456,876
Molding equipment	172,632	-	-
Computer equipment	765,177	943,107	32,377
Transportation equipment	7,710	7,038	242
Furniture and fixtures	368,025	452,511	15,535
Leased assets	6,730	2,765	95
Leasehold improvements	463,581	545,705	18,734
Total cost	26,695,899	34,692,775	1,191,005
Less: Accumulated depreciation	(7,314,359)	(9,273,494)	(318,360)
Prepayments for construction-in-progress and equipment in transit	2,130,938	232,011	7,965
Properties, net	21,512,478	25,651,292	880,610
INTANGIBLE ASSETS (Notes 2 and 17)			
Patents	11,152,098	9,180,674	315,173
Goodwill	10,812,564	1,534,366	52,675
Deferred pension cost	342	269	9
Other intangible assets	595,784	805,365	27,648
Total intangible assets	22,560,788	11,520,674	395,505
OTHER ASSETS			
Refundable deposits	185,306	190,142	6,528
Deferred charges (Note 2)	763,516	897,164	30,800
Long-term receivable (Note 15)	-	4,369,350	150,000
Deferred income tax assets - non-current (Notes 2 and 24)	3,675,521	4,427,776	152,005
Restricted assets - non-current (Note 28)	68,700	3,660	126
Other (Notes 2, 12 and 20)	10,485,501	9,687,816	332,583
Total other assets	15,178,544	19,575,908	672,042
TOTAL	$255,796,963	$206,604,126	$7,092,730

	2011	2012	
LIABILITIES AND STOCKHOLDERS' EQUITY	NT$	NT$	US$ (Note 3)
CURRENT LIABILITIES			
Notes and accounts payable (Note 27)	$78,473,130	$73,618,197	$2,527,316
Income tax payable (Notes 2 and 24)	10,570,682	2,713,373	93,150
Accrued expenses (Notes 18 and 27)	46,171,290	37,376,493	1,283,137
Payable for purchase of equipment	812,240	1,471,529	50,518
Other current liabilities (Notes 2 and 19)	17,307,355	10,995,320	377,470
Total current liabilities	153,334,697	126,174,912	4,331,591
OTHER LIABILITIES			
Guarantee deposits received	42,946	59,999	2,060
Total liabilities	153,377,643	126,234,911	4,333,651
STOCKHOLDERS' EQUITY (Note 21)			
Capital stock - NT$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 852,052 thousand shares in 2011 and 2012			
Common stock	8,520,521	8,520,521	292,510
Capital surplus			
Additional paid-in capital - issuance of shares in excess of par	14,809,608	14,809,608	508,415
Treasury stock transactions	1,730,458	1,730,458	59,407
Long-term equity investments	18,037	18,037	619
Merger	24,423	24,423	838
Expired stock options	37,068	37,068	1,273
Retained earnings			
Legal reserve	10,273,674	16,471,254	565,459
Special reserve	580,856	-	-
Accumulated earnings	75,762,315	53,677,474	1,842,750
Other equity			
Cumulative translation adjustments (Note 2)	32,134	(1,057,559)	(36,306)
Net losses not recognized as pension cost	(293)	(347)	(12)
Unrealized valuation gains on financial instruments (Notes 2 and 26)	2,939	203,768	6,995
Treasury stock (Note 22)	(10,365,144)	(14,065,490)	(482,869)
Equity attributable to stockholders of the parent	101,426,596	80,369,215	2,759,079
MINORITY INTEREST	992,724	-	-
Total stockholders' equity	102,419,320	80,369,215	2,759,079
TOTAL	$255,796,963	$206,604,126	$7,092,730

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

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2012

(In Thousands, Except Earnings Per Share)

	2011	2012	
	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 27)			
Sales	$466,488,311	$287,063,137	$9,854,892
Sales returns and allowances	(2,609,461)	(4,148,451)	(142,417)
Net sales	463,878,850	282,914,686	9,712,475
Other operating revenues	1,915,923	6,105,489	209,602
Total revenues	465,794,773	289,020,175	9,922,077
COST OF REVENUES (Notes 2, 11, 23 and 27)	333,997,246	216,095,098	7,418,555
GROSS PROFIT	131,797,527	72,925,077	2,503,522
OPERATING EXPENSES (Notes 23 and 27)			
Selling and marketing	40,088,802	32,387,932	1,111,879
General and administrative	6,626,010	6,227,469	213,789
Research and development	16,294,948	15,489,969	531,772
Total operating expenses	63,009,760	54,105,370	1,857,440
OPERATING INCOME	68,787,767	18,819,707	646,082
NON-OPERATING INCOME AND GAINS			
Interest income (Note 27)	701,724	617,635	21,204
Gain on equity-method investments (Notes 2 and 15)	-	387,478	13,302
Gain on sale of investments, net	29	-	-
Exchange gains, net (Note 2)	1,520,643	666,883	22,894
Valuation gains on financial instruments, net (Notes 2 and 6)	256,868	17,417	597
Other (Note 27)	304,000	550,897	18,913
Total non-operating income and gains	2,783,264	2,240,310	76,910

(Continued)

	2011	2012	
	NT$	NT$	US$ (Note 3)
NON-OPERATING EXPENSES AND LOSSES			
Interest expense	$30,979	$1,715	$59
Loss on equity-method investments (Notes 2 and 15)	3,961	-	-
Losses on disposal of properties	465	6,395	220
Loss on sale of investments, net (Notes 2 and 15)	-	165,184	5,671
Impairment losses (Notes 2, 14, 15 and 17)	18,608	1,313,353	45,087
Other	93,331	122,912	4,219
Total non-operating expenses and losses	147,344	1,609,559	55,256
INCOME BEFORE INCOME TAX	71,423,687	19,450,458	667,736
INCOME TAX (Notes 2 and 24)	(9,124,639)	(1,861,272)	(63,898)
NET INCOME	$62,299,048	$17,589,186	$603,838
ATTRIBUTABLE TO			
Stockholders of the parent	$61,975,796	$16,780,968	$576,092
Minority interest	323,252	808,218	27,746
	$62,299,048	$17,589,186	$603,838

	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 25)	$82.63	$73.32	$20.34	$0.70	$20.17	$0.69
DILUTED EARNINGS PER SHARE (Note 25)	$81.05	$71.91	$20.25	$0.70	$20.08	$0.69

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2011 AND 2012

(In Thousands of New Taiwan Dollars)

	Capital Stock	Capital Surplus					Retained Earnings			Other Equity					
	Issued and Outstanding Common Stock	Issuance of Shares in Excess of Par	Treasury Stock Transactions	Long-term Equity Investments	Merger	Expired Stock Options	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Gain on Financial Instruments	Treasury Stock	Minority Interest	Total
BALANCE, JANUARY 1, 2011	$8,176,532	$10,777,623	$-	$18,411	$24,710	$-	$10,273,674	$-	$52,876,892	($579,849)	($121)	($885)	($6,852,493)	$-	$74,714,494
Appropriation of the 2010 net earnings															
Special reserve	-	-	-	-	-	-	-	580,856	(580,856)	-	-	-	-	-	-
Stock dividends	403,934	-	-	-	-	-	-	-	(403,934)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(29,891,089)	-	-	-	-	-	(29,891,089)
Transfer of employee bonuses to common stock	40,055	4,205,796	-	-	-	-	-	-	-	-	-	-	-	-	4,245,851
Net income in 2011	-	-	-	-	-	-	-	-	61,975,796	-	-	-	-	323,252	62,299,048
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	3,824	-	-	3,824
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	611,983	-	-	-	-	611,983
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(172)	-	-	-	(172)
Adjustment due to changes in ownership percentage in investees	-	-	-	(374)	-	-	-	-	-	-	-	-	-	-	(374)
Transfer of treasury stock to employees	-	-	1,750,767	-	-	37,503	-	-	-	-	-	-	4,113,821	-	5,902,091
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(16,135,808)	-	(16,135,808)
Retirement of treasury stock	(100,000)	(173,811)	(20,309)	-	(287)	(435)	-	-	(8,214,494)	-	-	-	8,509,336	-	-
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	669,472	669,472
BALANCE, DECEMBER 31, 2011	8,520,521	14,809,608	1,730,458	18,037	24,423	37,068	10,273,674	580,856	75,762,315	32,134	(293)	2,939	(10,365,144)	992,724	102,419,320
Appropriation of the 2011 net earnings															
Legal reserve	-	-	-	-	-	-	6,197,580	-	(6,197,580)	-	-	-	-	-	-
Special reserve reversed	-	-	-	-	-	-	-	(580,856)	580,856	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(33,249,085)	-	-	-	-	-	(33,249,085)
Net income in 2012	-	-	-	-	-	-	-	-	16,780,968	-	-	-	-	808,218	17,589,186
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	6,777	-	-	6,777
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(1,089,693)	-	-	-	-	(1,089,693)
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	194,052	-	-	194,052
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(54)	-	-	-	(54)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(3,700,346)	-	(3,700,346)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,800,942)	(1,800,942)
BALANCE, DECEMBER 31, 2012	$8,520,521	$14,809,608	$1,730,458	$18,037	$24,423	$37,068	$16,471,254	$-	$53,677,474	($1,057,559)	($347)	$203,768	($14,065,490)	$-	$80,369,215

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2012

(In Thousands of U.S. Dollars)

	Capital Stock	Capital Surplus					Retained Earnings			Other Equity					
	Issued and Outstanding Common Stock	Issuance of Shares in Excess of Par	Treasury Stock Transactions	Long-term Equity Investments	Merger	Expired Stock Options	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Gain on Financial Instruments	Treasury Stock	Minority Interest	Total
BALANCE, JANUARY 1, 2012	$292,510	$508,415	$59,407	$619	$838	$1,273	$352,696	$19,941	$2,600,923	$1,103	($10)	$101	($355,836)	$34,080	$3,516,060
Appropriation of the 2011 net earnings															
Legal reserve	-	-	-	-	-	-	212,763	-	(212,763)	-	-	-	-	-	-
Special reserve reversed	-	-	-	-	-	-	-	(19,941)	19,941	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(1,141,443)	-	-	-	-	-	(1,141,443)
Net income in 2012	-	-	-	-	-	-	-	-	576,092	-	-	-	-	27,746	603,838
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	-	232	-	-	232
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(37,409)	-	-	-	-	(37,409)
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	6,662	-	-	6,662
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(2)	-	-	-	(2)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(127,033)	-	(127,033)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(61,826)	(61,826)
BALANCE, DECEMBER 31, 2012	$292,510	$508,415	$59,407	$619	$838	$1,273	$565,459	$-	$1,842,750	($36,306)	($12)	$6,995	($482,869)	$-	$2,759,079

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2012

(In Thousands)

	2011 NT$	2012 NT$	2012 US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$62,299,048	$17,589,186	$603,838
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,564,225	2,222,517	76,299
Amortization	836,611	2,037,722	69,955
Compensation cost recognized for the transfer of treasury stock to employees	1,788,270	-	-
Amortization of premium on financial assets	3,349	3,138	108
Prepaid pension cost	(24,878)	(22,267)	(764)
Loss (gain) on equity-method investments	3,961	(387,478)	(13,302)
Losses on disposal of properties, net	465	6,395	220
Transfer of properties to expenses	324	30,501	1,047
(Gain) loss on sale of investments, net	(29)	165,184	5,671
Unrealized gain on financial assets	-	(10,467)	(359)
Impairment losses	18,608	1,313,353	45,087
Deferred income tax assets	(2,504,033)	(2,036,274)	(69,905)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	229,037	249,918	8,580
Notes and accounts receivable	(2,124,055)	19,885,018	682,654
Other receivables- related parties	-	966	33
Inventories	(1,995,952)	2,707,400	92,945
Prepayments	(3,834,892)	(1,412,046)	(48,476)
Other current assets	(287,655)	195,668	6,717
Other current financial assets	(622,371)	215,036	7,382
Other assets - others	(7,784,602)	819,971	28,149
Notes and accounts payable	16,372,303	68,467	2,350
Income tax payable	3,751,382	(7,857,294)	(269,741)
Accrued expenses	16,823,509	(6,481,923)	(222,525)
Other current liabilities	3,994,726	(6,006,993)	(206,221)
Net cash provided by operating activities	88,507,351	23,295,698	799,742
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	28,462
Repayment of held-to-maturity financial assets	-	100,000	3,433
Increase in financial assets carried at cost	(2,300,272)	(2,292,573)	(78,704)
Acquisition of investments accounted for by the equity method	(76,214)	-	-
Acquisition of subsidiaries	(20,210,729)	(173,926)	(5,970)
Purchase of properties	(8,411,182)	(6,262,558)	(214,993)
Proceeds of the sale of properties	580	38,683	1,328
Increase in refundable deposits	(34,309)	(13,718)	(471)
Increase in deferred charges	(574,267)	(228,537)	(7,846)
Loan to related parties	-	(6,600,093)	(226,582)
Decrease (increase) in restricted assets	26,988	(3,580,820)	(122,930)
Increase in intangible assets	(2,294,360)	(509,338)	(17,486)
Loss of a subsidiary	-	(499,389)	(17,144)
Net cash used in investing activities	(34,163,736)	(19,193,198)	(658,903)

(Continued)

	2011 NT$	2012 NT$	2012 US$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in long-term bank loans	($24,376)	$-	$-
Increase in guarantee deposits received	28,987	17,053	585
Cash dividends	(29,891,089)	(33,249,085)	(1,141,443)
Purchase of treasury stock	(16,135,808)	(3,700,346)	(127,033)
Transfer of treasury stock to employees	4,113,821	-	-
Increase (decrease) in minority interest	669,472	(1,459,370)	(50,100)
Net cash used in financing activities	(41,238,993)	(38,391,748)	(1,317,991)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(65,975)	665,807	22,857
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,038,647	(33,623,441)	(1,154,295)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	74,462,861	87,501,508	3,003,932
CASH AND CASH EQUIVALENTS, END OF YEAR	$87,501,508	$53,878,067	$1,849,637
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the year			
Interest	$32,197	$1,715	$59
Income tax	$7,877,290	$11,754,892	$403,546
NON-CASH 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	$-	$-
Retirement of treasury stock	$8,509,336	$-	$-
Transfer of accrued bonus to employees to stock dividends for distribution and other capital surplus	$4,245,851	$-	$-
PURCHASE OF PROPERTIES			
Cost of properties purchased	$8,781,446	$6,921,847	$237,627
Increase in payables for the purchase of equipment	(370,264)	(659,289)	(22,634)
Cash paid for the purchase of properties	$8,411,182	$6,262,558	$214,993
ACQUISITION OF SUBSIDIARIES			
Net cash outflow on the acquisition of a subsidiary	$20,303,485	$45,021	$1,546
(Increase) decrease in other payable	(92,756)	128,905	4,424
Cash paid for acquisition of subsidiaries	$20,210,729	$173,926	$5,970
CASH RECEIVED FROM THE DISPOSAL OF A SUBSIDIARY			
Proceeds of the sale of subsidiary	$-	$4,369,350	$150,000
Increase in long-term receivable	-	(4,369,350)	(150,000)
Cash received from the disposal of a subsidiary	$-	$-	$-

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2012

(In Thousands, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

HTC Corporation ("HTC") was incorporated on May 15, 1997 under the Company Law of the Republic of China to design, manufacture, 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 17,413 and 17,575 employees as of December 31, 2011 and 2012, respectively.

2. 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 in which 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.

(1) The consolidated entities as of December 31, 2011 and 2012 were as follows:

			% of Ownership		
Investor	Investee	Main Businesses	2011	2012	Remark
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)

			% of Ownership		
Investor	Investee	Main Businesses	2011	2012	Remark
	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	50.00	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 3-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	-	Incorporated in December 2004, investment received in July 2005 and liquidated in December 2012.
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	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	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 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
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

(Continued)

Investor	Investee	Main Businesses	% of Ownership 2011	% of Ownership 2012	Remark
HTC Holding Cooperatief U.A.	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	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 2010 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 Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	Incorporated in May 2011
	HTC Norway AS	Marketing, repair and after-sales services	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 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
	Beats Electronics, LLC	Design, research and development of audio technology	-	25.14	Acquired from a subsidiary of HTC, HTC America Holding Inc., in November 2012 for Company reorganization purpose.
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

(Continued)

Investor	Investee	Main Businesses	% of Ownership 2011	% of Ownership 2012	Remark
	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	50.14	-	Investment received in October 2011. HTC lost its control of the subsidiary in August 2012 because of the partial disposal of its shares and thus accounted for this investment by equity method. Sold the remaining interest to an indirect subsidiary in November 2012 for Company reorganization purpose.
	Inquisitive Minds, Inc.	Development and sale of digital education platform	100.00	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 lost its control on Beats Electronics, LLC because of 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. In October 2011, HTC (a) acquired portion of the shares of Beats Electronics, LLC and (b) wholly acquired the shares issued by Inquisitive Minds, Inc. and (c) adjusted the share purchase price of a certain share transaction agreement with One & Company Design, Inc. In November 2011, HTC wholly acquired the shares issued by S3 Graphics Co., Ltd.

(2) The net assets of these companies were as follows:

	2011						2012	
	Saffron Media Group Ltd.	Dashwire, Inc.	Beats Electronics, LLC	Inquisitive Minds, Inc.	S3 Graphics Co., Ltd.	One & Company Design, Inc.	FunStream Corporation	
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)
Cash on hand and in banks	$18,945	$8,860	$118,400	$2,031	$-	$-	$69	$2
Other current assets	161,622	2,756	925,409	-	-	-	4	-
Properties	8,629	1,247	5,862	567	-	-	-	-
Other assets	1,130	40,164	83,982	689	-	-	-	-
Current liabilities	(142,250)	(111,898)	(292,457)	(88)	-	-	-	-
Net assets	$48,076	($58,871)	$841,196	$3,199	$-	$-	$73	$2
Cash consideration	$1,393,717	$480,905	$9,102,096	$360,370	$9,033,450	$81,183	$45,090	$1,548
Cash on hand and in banks	(18,945)	(8,860)	(118,400)	(2,031)	-	-	(69)	(2)
Net cash outflow on the acquisition of a subsidiary	$1,374,772	$472,045	$8,983,696	$358,339	$9,033,450	$81,183	$45,021	$1,546

(3) 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. These 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 non-monetary 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 non-monetary 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.

(4) Accounting Estimates

Under the 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.

(5) Current/Non-current 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 non-current. 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 non-current.

(6) 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, canceled 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 (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.

(7) Available-for-sale Financial Assets

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

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

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

(8) 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. This review is made by an aging analysis of the outstanding receivables and assessing the value of the collaterals 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 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 undergo bankruptcy or financial reorganization.

Accounts receivable that are assessed as not 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 and 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 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 collaterals 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.

(9) 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 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.

(10) 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 that 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.

(11) 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 stockholders' 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, the amount that is not expected to be recovered is reclassified to 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 on disposal of the foreign operation.

(12) 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 as 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.

(13) 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 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 non-current assets acquired (except for financial assets other than investments accounted for by the equity method, non-current assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the non-current 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.

(14) 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 start 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 non-operating 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.

(15) 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.

(16) 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.

(17) 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 reduction of the unrealized revaluation increment, and any remaining loss is charged to earnings. If an impairment loss 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 on which the Company has significant influence but over which it has no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

(18) 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.

(19) Warranty Provisions

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

(20) 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, evaluating the foregoing effects on inventory management and adjusting the Company's purchases.

(21) Product-related Costs

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

(22) 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.

(23) 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 stockholders' equity; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforwards 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 non-current in accordance with the classification of the related asset or liability for financial reporting. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as current or non-current on the basis of 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 stockholders approve the retention of these 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.

(24) 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.

(25) Treasury Stock

Under SFAS No. 30 - "Accounting for Treasury Stocks," when the Company acquires its outstanding shares that have not been disposed or retired, treasury stock is stated at cost and shown as a deduction in stockholders' equity. When treasury shares 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 stock is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The carrying value of treasury stock in excess of the sum of its par value and premium on stock 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 sum of the par value and premium on treasury stock in excess of its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

(26) Reclassifications

Certain 2011 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the year ended December 31, 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$29.129 to US$1.00 quoted by Reuters on December 31, 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

(1) Financial Instruments

On January 1, 2011, the Company adopted the newly revised SFAS No. 34 - "Financial Instruments: Recognition and Measurement." The main revisions include (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 consolidated financial statements as of and for the year ended December 31, 2011.

(2) 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 on 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 the Company's compliance with the requirement to disclose operating segment information.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Cash on hand	$6,436	$15,433	$530
Checking accounts	9,709	12,134	417
Demand deposits	28,197,300	36,224,664	1,243,594
Time deposits	59,288,063	17,625,836	605,096
	$87,501,508	$53,878,067	$1,849,637

On time deposits, interest rates ranged from 0.15% to 1.345% and from 0.20% to 1.05% as of December 31, 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 December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Derivatives - financial assets			
Exchange contracts	$256,868	$6,950	$238

The Company entered into derivative transactions in 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 December 31, 2011 and 2012 were as follows:

Forward Exchange Contracts

		2011
Currency	Settlement Period/Date	Contract Amount
Buy		
USD/CAD	2012.01.11-2012.02.22	USD28,010
USD/RMB	2012.01.04-2012.01.31	USD105,000
Sell		
EUR/USD	2012.01.04-2012.03.30	EUR339,000
GBP/USD	2012.01.11-2012.02.22	GBP17,100

		2012
Currency	Settlement Period/Date	Contract Amount
Sell		
EUR/USD	2013.01.11-2013.03.27	EUR146,000
GBP/USD	2013.01.09-2013.03.20	GBP20,700
USD/NTD	2013.01.17-2013.02.20	USD70,000
USD/RMB	2013.01.09-2013.01.30	USD78,000
Buy		
USD/RMB	2013.01.09-2013.01.30	USD106,000
USD/JPY	2013.01.09-2013.03.08	USD97,437
USD/CAD	2013.01.09-2013.02.22	USD22,158
USD/NTD	2013.01.07-2013.02.21	USD270,000

Net gain on derivative financial instruments in 2011 was NT$172,501 thousand, including a realized settlement loss of NT$84,367 thousand and a valuation gain of NT$256,868 thousand, which were classified as exchange loss and valuation gain, respectively, on financial instruments.

Net gain on derivative financial instruments in 2012 was NT$356,010 thousand (US$12,222 thousand), including a realized settlement gain of NT$349,060 thousand (US$11,984 thousand) and a valuation gain of NT$6,950 thousand (US$238 thousand), which were classified as exchange gain and valuation gain on financial instruments, respectively. Note 26 has more information.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Quoted stocks	$279	$38,099	$1,308
Mutual funds	736,031	-	-
	736,310	38,099	1,308
Less: Current portion	(736,031)	(37,902)	(1,301)
	$279	$197	$7

8. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

Hedging derivative financial instruments as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Hedging derivative assets	$-	$204,519	$7,021

The Company's foreign-currency cash flows derived from the highly probable forecast transaction may lead to risks on 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; thus, the Company entered into derivative contracts to hedge against foreign-currency exchange risks. The outstanding forward exchange contracts as of December 31, 2012 were as follows:

Forward exchange contracts

		2012
Currency	Settlement Period/Date	Contract Amount
Buy		
USD/JPY	2013.03.28	US$95,356

Movements of hedging derivative financial instruments for 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Balance, beginning of year	$-	$-	$-
Add: Recognized in profit and loss	-	10,467	359
Unrealized valuation gain	-	194,052	6,662
Balance, end of year	$-	$204,519	$7,021

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

9. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Notes receivable	$755,450	$-	$-
Accounts receivable	65,518,876	43,118,861	1,480,272
Accounts receivable from related parties	473	221,050	7,589
	66,274,799	43,339,911	1,487,861
Less: Allowance for doubtful accounts	(1,555,008)	(2,086,085)	(71,615)
	$64,719,791	$41,253,826	$1,416,246

10. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Other receivables	$1,128,238	$1,121,912	$38,515
Agency payments	249,644	39,097	1,342
Interest receivable	23,261	8,067	277
Others	3,802	3,014	104
	$1,404,945	$1,172,090	$40,238

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 December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Finished goods	$2,189,984	$3,310,521	$113,650
Work-in-process	4,320,763	1,902,733	65,321
Semi-finished goods	4,547,374	5,635,374	193,463
Raw materials	17,251,140	12,663,961	434,754
Inventory in transit	121,329	296,788	10,189
	$28,430,590	$23,809,377	$817,377

As of December 31, 2011 and 2012, the allowance for inventory devaluation was NT$4,930,857 thousand and NT$4,936,776 thousand (US$169,480 thousand), respectively.

The write-down of inventories to their net realizable value amounting to NT$3,381,137 thousand and NT$2,154,419 thousand (US$73,961 thousand) were recognized as cost of revenues in 2011 and 2012, respectively.

12. PREPAYMENTS

Prepayments as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Royalty	$5,210,204	$2,609,254	$89,576
Prepayments to suppliers	299,105	854,799	29,345
Software and hardware maintenance	311,416	716,695	24,604
Net input VAT	320,544	434,521	14,917
Molding equipment	188,242	96,859	3,325
Marketing	43,200	79,892	2,743
Service	7,209	62,877	2,159
Insurance	8,384	31,625	1,086
Rental	15,488	31,552	1,083
Others	103,724	47,740	1,639
	$6,507,516	$4,965,814	$170,477

Prepayments for royalty were primarily for discount purposes and were classified as current or non-current in accordance with their nature. As of December 31, 2011 and 2012, the non-current prepayments of NT$7,311,781 thousand and NT$7,327,355 thousand (US$251,548 thousand), respectively, had been classified as other assets - other (Note 30 has more information).

Prepayments to suppliers were primarily for discount purposes and were classified as current or non-current in accordance with their nature. As of December 31, 2011 and 2012, non-current prepayments of NT$2,956,977 thousand and NT$2,121,432 thousand (US$72,829 thousand) had been classified as other assets - other.

Prepayments for others were primarily travel and other expenses.

13. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Corporate bonds	$204,597	$101,459	$3,483
Less: Current portion	-	(101,459)	(3,483)
	$204,597	$-	$-

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

14. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$500,000	$500,000	$17,165
Answer Online, Inc.	1,192	1,192	41
BandRich Inc.	15,861	15,861	545
SoundHound Inc.	67,441	64,880	2,227
GSUO Inc.	242,232	233,032	8,000
Felicis Ventures II LP	68,128	120,157	4,125
WI Harper Fund VII	47,689	81,270	2,790
NETQIN MOBILE Inc.	75,698	-	-

(Continued)

	2011	2012	
	NT$	NT$	US$ (Note 3)
Luminous Optical Technology Co., Ltd.	183,000	183,000	6,283
OnLive, Inc.	1,211,160	-	-
KKBOX Inc.	302,790	291,290	10,000
TransLink Capital Partners II, L.P.	99,921	139,819	4,800
Shanghai F-road Commercial Co., Ltd.	166,555	160,610	5,514
Primavera Capital (Cayman) Fund L.L.P.	428,179	1,483,286	50,921
Magnet Systems Inc.	-	1,031,702	35,418
	3,409,846	4,306,099	147,829
Less: Accumulated impairment loss	(1,192)	(1,192)	(41)
	$3,408,654	$4,304,907	$147,788

(Concluded)

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

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

In April 2006, HTC acquired 92% equity interest in BandRich Inc. for NT$135,000 thousand and accounted for this investment by the equity method. However, HTC's ownership percentage declined from 92% to 18.08%; thus, HTC lost its significant influence on this investee. In July 2010, HTC transferred this investment to "financial assets carried at cost" using the 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 December 31, 2012, HTC's investment in SoundHound Inc. had amounted to US$2,227 thousand (NT$64,880 thousand), and its ownership percentage was 4.50%.

In May 2010, HTC made an investment in GSUO Inc. through HTC BVI. As of December 31, 2012, HTC's investment in GSUO Inc. had amounted to US$8,000 thousand (NT$233,032 thousand), and its ownership percentage was 10.32%.

In September 2010, HTC made an investment in Felicis Ventures II LP through HTC BVI. As of December 31, 2012, HTC's investment in Felicis Ventures II LP had amounted to US$4,125 thousand (NT$120,157 thousand).

In August 2010, HTC made an investment in WI Harper Fund VII through HTC BVI. As of December 31, 2012, HTC' s investment had amounted to US$2,790 thousand (NT$81,270 thousand).

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

In December 2010, HTC made an investment in Luminous Optical Technology Co., Ltd. ("Luminous") through HTC Investment Corporation and HTC I Investment Corporation. As of December 31, 2012, HTC's investment in Luminous had amounted to NT$183,000 thousand, and its ownership percentage was 10.02%.

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

In March 2011, HTC made an investment in KKBOX Inc. through HTC BVI. As of December 31, 2012, HTC's investment in KKBOX Inc. had amounted to US$10,000 thousand (NT$291,290 thousand), and its ownership percentage was 11.11%.

In June 2011, HTC made an investment in TransLink Capital Partners II, L.P. through HTC BVI. As of December 31, 2012, HTC's investment in TransLink Capital Partners II, L.P. had amounted to US$4,800 thousand (NT$139,819 thousand).

In May 2011, HTC made an investment in Shanghai F-road Commercial Co. through HTC HK Limited. As of December 31, 2012, HTC's investment in Shanghai F-road Commercial Co., Ltd. had amounted to US$5,500 thousand (NT$160,610 thousand), and its ownership percentage was 14.21%.

In August 2011, HTC made an investment in Primavera Capital (Cayman) Fund L.L.P. through HTC Investment One (BVI) Corporation. As of December 31, 2012, HTC's investment had amounted to US$50,921 thousand (NT$1,483,286 thousand).

In August 2012, HTC made an investment in Magnet Systems Inc. through HTC BVI. As of December 31, 2012, HTC' s investment had amounted to US$35,418 thousand (NT$1,031,702 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 December 31, 2011 and 2012 were as follows:

	2011		2012		
	Carrying Value	Ownership Percentage	Carrying Value		Ownership Percentage
	NT$		NT$	US$ (Note 3)	
Unquoted equity investments					
Huada Digital Corporation	$-	-	$241,309	$8,284	50.00
SYNCTV Corporation	71,732	20.00	56,687	1,946	20.00
Beats Electronics, LLC	-	-	5,650,859	193,994	25.14
	71,732		5,948,855	204,224	
Less: Accumulated impairment loss	-		(56,687)	(1,946)	
	$71,732		$5,892,168	$202,278	

In December 2009, HTC acquired 100% equity interest in Huada Digital Corporation ("Huada"), whose main business is 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 December 31, 2012, HTC's investment in Huada had amounted to NT$250,000 thousand. In September 2011, the Fair Trade Commission 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 continued to account 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 2012, the Company determined that the recoverable amount of this investment was less than its carrying amount and thus recognized an impairment loss of NT$56,687 thousand (US$1,946 thousand).

In October 2011, HTC acquired, through HTC America Holding Inc., 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$4,369,350 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, HTC indirectly remained 25.14% of the shareholdings in Beats and accounted for this investment by the equity method.

In 2011 and 2012, gain (loss) on equity method investments were as follows:

	2011		2012
	NT$	NT$	US$ (Note 3)
Huada Digital Corporation	$-	($9,380)	($322)
SYNCTV Corporation	(3,961)	(11,979)	(411)
Beats Electronics, LLC		408,837	14,035
	($3,961)	$387,478	$13,302

The financial statements of equity-method investees had been examined by independent auditors, except SYNCTV Corporation.

16. PROPERTIES

Properties as of December 31, 2011 and 2012 were as follows:

	2011				2012
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$7,614,167	$7,615,546	$-	$7,615,546	$261,442
Buildings and structures	4,990,887	11,817,745	1,302,517	10,515,228	360,988
Machinery and equipment	5,907,321	13,308,358	6,980,635	6,327,723	217,231
Computer equipment	353,729	943,107	544,607	398,500	13,680
Transportation equipment	3,922	7,038	4,151	2,887	99
Furniture and fixtures	166,877	452,511	262,857	189,654	6,511
Leased assets	919	2,765	733	2,032	70
Leasehold improvements	343,718	545,705	177,994	367,711	12,624
Prepayments for construction-in-progress and equipment in transit	2,130,938	232,011	-	232,011	7,965
	$21,512,478	$34,924,786	$9,273,494	$25,651,292	$880,610

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

The construction of a new office building and factory was completed in June 2012, and a construction amount of NT$5,615,958 thousand (US$192,796 thousand) was transferred from prepayments for construction in progress to buildings and structures.

There were no interests capitalized in 2011 and 2012.

17. INTANGIBLE ASSETS

Movement of intangible assets for 2011 and 2012 were as follows:

					2011
	Patents	Goodwill	Deferred Pension Cost	Other	Total
	NT$	NT$	NT$	NT$	NT$
Cost					
Balance, beginning of year	$220,943	$569,311	$416	$228,850	$1,019,520
Additions					
Acquisition	2,282,409	-		11,951	2,294,360
Difference between the cost of investments and the Company's share in investees' net assets	9,033,450	10,240,332		603,852	19,877,634
Owned by acquirees	21,527	-		62,929	84,456
Adjustments of acquisition cost	-	81,183		-	81,183
The changes in deferred pension cost	-	-	(74)	-	(74)
Translation adjustment	50,211	15,052		4,380	69,643
Balance, end of year	11,608,540	10,905,878	342	911,962	23,426,722
Accumulated amortization					
Balance, beginning of year	12,362	-	-	-	12,362
Amortization	443,551	-	-	330,812	774,363
Owned by acquirees	475	-	-		475
Translation adjustment	54	-	-	(14,634)	(14,580)
Balance, end of year	456,442	-	-	316,178	772,620
Accumulated impairment losses					
Balance, beginning of year	-	71,508	-	-	71,508
Impairment losses	-	18,608	-	-	18,608
Translation adjustment	-	3,198	-	-	3,198
Balance, end of year	-	93,314	-	-	93,314
Net book value, end of year	$11,152,098	$10,812,564	$342	$595784	$22,560,788

						2012
	Patents	Goodwill	Deferred Pension Cost	Other		Total
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)
Cost						
Balance, beginning of year	$11,608,540	$10,905,878	$342	$911,962	$23,426,722	$804,240
Additions						
Acquisition	11,464	-	-	497,874	509,338	17,486
The difference between the cost of investment and the Company's share in investees' net assets	-	45,017	-	-	45,017	1,545
Adjustments of acquisition cost	-	(26,226)	-	-	(26,226)	(900)
Reclassification	-	(5,717,960)	-	5,717,960	-	-
The changes in deferred pension cost	-	-	(73)	-	(73)	(3)
Disposal of Subsidiary	(35,323)	(3,485,380)	-	(5,713,752)	(9,234,455)	(317,019)
Translation adjustment	(345,127)	(39,768)	-	(81,322)	(466,217)	(16,005)
Balance, end of year	11,239,554	1,681,561	269	1,332,722	14,254,106	489,344
Accumulated amortization						
Balance, beginning of year	456,442	-	-	316,178	772,620	26,524
Amortization	1,625,124	-	-	333,424	1,958,548	67,237
Disposal of Subsidiary	(1,893)	-	-	(115,699)	(117,592)	(4,037)
Translation adjustment	(20,793)	-	-	(6,546)	(27,339)	(938)
Balance, end of year	2,058,880	-	-	527,357	2,586,237	88,786
Accumulated impairment losses						
Balance, beginning of year	-	93,314	-	-	93,314	3,203
Impairment losses	-	57,621	-	-	57,621	1,978
Translation adjustment	-	(3,740)	-	-	(3,740)	(128)
Balance, end of year	-	147,195	-	-	147,195	5,053
Net book value, end of year	$9,180,674	$1,534,366	$269	$805,365	$11,520,674	$395,505

18. ACCRUED EXPENSES

Accrued expenses as of December 31, 2011 and 2012 were as follows:

	2011		2012
	NT$	NT$	US$ (Note 3)
Marketing	$29,104,665	$20,872,536	$716,555
Bonus to employees	7,238,637	5,712,075	196,096
Salaries and performance bonuses	3,433,649	5,619,290	192,910
Materials and molding expenses	1,854,932	1,904,181	65,371
Services	1,324,631	1,020,609	35,038
Import, export and freight	1,397,747	644,432	22,123
Repairs, maintenance and sundry purchase	466,135	573,355	19,683
Insurance	191,931	243,046	8,344
Meals and welfare	193,721	169,711	5,826
Pension cost	123,877	119,833	4,114
Travel	96,085	96,726	3,321
Donation	236,630	-	-
Others	508,650	400,699	13,756
	$46,171,290	$37,376,493	$1,283,137

The employee bonus in 2011 and 2012 should be appropriated at 10% and 5%, respectively, of net income before deducting employee bonus expenses. Accrued bonuses as of December 31, 2011 and 2012 were as follows:

	2011		2012
	NT$	NT$	US$ (Note 3)
Accrued bonus to employees for the current year	$7,238,637	$976,327	$33,517
Cash bonuses approved by the stockholders for prior years	-	4,735,748	162,579
	$7,238,637	$5,712,075	$196,096

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$7,506 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 December 31, 2011 and 2012 were as follows:

	2011		2012
	NT$	NT$	US$ (Note 3)
Warranty provisions	$13,080,394	$8,058,509	$276,649
Provisions for contingent loss on purchase orders	2,052,881	823,005	28,254
Advance receipts	433,072	535,110	18,370
Other payable	512,941	325,701	11,182
Agency receipts	440,862	301,868	10,363
Advance revenues	140,815	102,137	3,506
Others	646,390	848,990	29,146
	$17,307,355	$10,995,320	$377,470

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. PENSION PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, HTC and Communication Global Certification Inc. ("CGC") make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$351,762 thousand in 2011 and NT$413,458 thousand (US$14,194 thousand) in 2012.

Based on the defined benefit plan under the Labor Standards Law ("LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. HTC and CGC contributed amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name. The Company recognized pension costs of NT$4,217 thousand in 2011 and NT$4,104 thousand (US$141 thousand) in 2012.

H.T.C. (B.V.I.) Corp., HTC Investment Corporation, HTC I Investment Corporation, High Tech Computer Asia Pacific Pte. Ltd., HTC Investment One (BVI) Corporation, HTC Holding Cooperatief U.A. and HTC America Holding Inc. have no pension plans.

Under the respective local government regulations, other subsidiaries have defined contribution pension plans covering all eligible employees. The pension fund contributions were NT$200,330 thousand in 2011 and NT$252,307 thousand (US$8,662 thousand) in 2012.

Under SFAS No. 18, "Accounting for Pensions," the pension expense calculated using actuarial method under the defined benefit pension plan should disclose the following information:

(1) The net pension costs of HTC and CGC under the defined benefit plan in 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Service cost	$5,980	$5,481	$188
Interest cost	6,882	7,341	252
Projected return on plan assets	(9,226)	(9,917)	(340)
Amortization of unrecognized net transition obligation, net	74	74	2
Amortization	507	1,125	39
Net pension cost	$4,217	$4,104	$141

(2) The reconciliations between pension fund status and prepaid pension cost as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Present actuarial value of benefit obligation			
Vested benefits	$10,026	$28,906	$992
Non-vested benefits	193,962	188,993	6,488
Accumulated benefit obligation	203,988	217,899	7,480
Additional benefits on future salaries	163,087	161,977	5,561
Projected benefit obligation	367,075	379,876	13,041
Plan assets at fair value	(482,786)	(513,954)	(17,644)
Funded status	(115,711)	(134,078)	(4,603)
Unrecognized net transitional obligation	(342)	(269)	(9)
Unrecognized pension loss	(68,285)	(72,257)	(2,481)
Additional minimum pension liability	635	615	21
Prepaid pension cost	($183,703)	($205,989)	($7,072)

(3) Assumptions used in actuarially determining the present value of the projected benefit obligations of HTC and CGC were as follows:

	2011	2012
Weighted-average discount rate	2.00%	1.88%
Assumed rate of increase in future compensation	4.00%	4.00%
Expected long-term rate of return on plan assets	2.00%	1.88%

The payments from the fund amounted to NT$793 thousand in 2011.

21. STOCKHOLDERS' EQUITY

(1) 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 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 December 31, 2012 increased to NT$8,520,521 thousand (US$292,510 thousand), divided into 852,052 thousand common shares at NT$10 (US$0.34) par value.

(2) 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 December 31, 2012, there were 7,820 thousand units of GDRs redeemed, representing 31,280.2 thousand common shares, and the outstanding GDRs represented 4,780.3 thousand common shares or 0.58% of HTC's common shares.

(3) Capital Surplus

Under the Company Law, capital surplus may be used to offset a deficit. The capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, merger and treasury stock transactions) and donations may be capitalized once a year within a certain percentage of a company's paid-in capital. However, 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 December 31, 2012 was NT$14,809,608 thousand (US$508,415 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 of NT$20,309 thousand in treasury stock transactions and NT$435 thousand in expired stock options. As a result, as of December 31, 2012, capital surpluses were NT$1,730,458 thousand (US$59,407 thousand) from treasury stock transactions and NT$37,068 thousand (US$1,273 thousand) from expired stock options.

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 December 31, 2012 was NT$18,037 thousand (US$619 thousand).

Merger

The additional paid-in capital from a merger with IA Style (Note 14) 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 the foregoing merger. As a result, the additional paid-in capital from a merger as of December 31, 2012 was NT$24,423 thousand (US$838 thousand).

(4) Appropriation of Retained Earnings and Dividend Policy

Under HTC'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 items (a) to (c)
e. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above items (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 the affiliates' employees who meet specific requirements prescribed by the board of directors.
f. For any remainder, the board of directors should propose allocation ratios based on the dividend policy set forth in HTC's Articles and propose them at the stockholders' meeting.

Legal reserve should be appropriated until it has reached a 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 a 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 were approved in the stockholders' meetings on June 15, 2011 and June 12, 2012, respectively. The appropriations and dividends per share were as follows:

	For 2010		For 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	$212,763	$-	$-
Special reserve	580,856	-	(580,856)	(19,941)	-	-
Cash dividends	29,891,089	37.00	33,249,085	1,141,443	40.00	1.37
Stock dividends	403,934	0.50	-	-	-	-

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

	For 2010		For 2011			
	Amounts Approved in Stockholders' Meetings	Amounts Recognized in Financial Statements	Amounts Approved in Stockholders' Meetings		Amounts Recognized in Financial Statements	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Cash	$4,245,853		$7,238,637	$248,503		
Stock	4,245,851		-	-		
	$8,491,704	$8,491,704	$7,238,637	$248,503	$7,238,637	$248,503

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 stockholders' meeting. The approved amounts of the bonus to employees were the same as the accrual amounts reflected in the financial statements for 2010 and 2011.

The employee bonus for 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.

As of March 18, 2013, the date of the accompanying independent auditors' report, the 2012 earnings appropriation has not been approved by HTC's Board of directors. 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.

22. 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 from the open market 10,000 thousand shares for each of the periods between July 18, 2011 and August 17, 2011 and between August 18, 2011 and September 17, 2011, with the repurchase price ranging from NT$900 to NT$1,100 per share. When the share price was below the price floor of the range, HTC would continue to buy back its shares. HTC bought back 20,000 thousand shares for NT$16,086,098 thousand during the repurchase periods, retired 10,000 thousand shares in December 2011 and completed the 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 ranging from NT$445 (US$15) to NT$650 (US$22) per share. When the share price was below the price floor of the range, HTC would 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$128,740 thousand) during the repurchase period. Other treasury stock information for 2011 and 2012 were as follows:

(In Thousands of Shares)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
2011				
To maintain the Company's credibility and stockholders' interest	-	10,000	10,000	-
To transfer shares to the Company's employees	9,786	10,100	5,875	14,011
	9,786	20,100	15,875	14,011
2012				
To transfer shares to the Company's employees	14,011	6,814	-	20,825

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of a 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 realized capital surplus. In addition, HTC should not pledge its treasury shares nor exercise rights to receive dividends and to vote.

23. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

As of December 31, 2011 and 2012, personnel expenses, depreciation and amortization were as follows:

	2011						2012		
	NT$			NT$			US$ (Note 3)		
Function / Expense Item	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	$6,893,457	$20,215,794	$27,109,251	$6,247,147	$15,484,143	$21,731,290	$214,465	$531,571	$746,036
Salary	5,584,304	18,609,790	24,194,094	4,844,490	13,231,670	18,076,160	166,312	454,243	620,555
Insurance	375,386	599,600	974,986	458,290	893,904	1,352,194	15,733	30,688	46,421
Pension cost	232,408	323,901	556,309	243,648	426,221	669,869	8,364	14,633	22,997
Other	701,359	682,503	1,383,862	700,719	932,348	1,633,067	24,056	32,007	56,063
Depreciation	963,947	600,278	1,564,225	1,315,676	906,841	2,222,517	45,167	31,132	76,299
Amortization	33,681	802,930	836,611	15,158	2,022,564	2,037,722	520	69,435	69,955

24. INCOME TAX

(1) Provision for income tax expense (benefit) for 2011 and 2012, income tax payable, income tax receivables and deferred tax assets (liabilities) as of December 31, 2011 and 2012, were as follows:

				2011
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT$	NT$	NT$	NT$
HTC Corporation	$7,873,875	$9,653,090	$-	$5,113,822
Communication Global Certification Inc.	7,072	6,047	-	1,677
High Tech Computer Asia Pacific Pte. Ltd.	11,128	10,507	-	37
HTC Investment Corporation	229	26	-	-
HTC I Investment Corporation	167	-	29	-
Huada Digital Corporation	271	15	-	-
Exedea Inc.	656	-	152	-
High Tech Computer (H.K.) Limited	2,630	-	-	-
HTC (Australia and New Zealand) PTY. Ltd.	11,261	11,775	-	(884)
PT. High Tech Computer Indonesia	223	226	-	-
HTC (Thailand) Limited	3,621	2,285	-	-
HTC India Private Limited	2,772	-	-	-
HTC Malaysia Sdn. Bhd.	3,448	769	-	301
HTC Innovation Limited	2,677	1,542	-	-
HTC Communication Co., Ltd.	43,337	532,692	-	689,907
HTC HK, Limited	3,343	4,877	-	-
HTC Corporation (Shanghai WGQ)	3,917	2,082	-	-
HTC Electronics (Shanghai) Co., Ltd.	254,684	185,536	-	48,090
HTC Netherlands B.V.	1,400	1,630	-	-
HTC EUROPE CO., LTD.	159,811	125,595	-	9,451
HTC BRASIL	196	-	-	2,720
HTC Belgium BAVA/SPRL	1,043	5,983	-	-
HTC NIPPON Corporation	3,213	-	221	-
HTC FRANCE CORPORATION	314	582	-	-

(Continued)

				2011
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT$	NT$	NT$	NT$
HTC South Eastern Europe Limited Liability Company	$1,267	$1,282	$-	$-
HTC Nordic ApS	6,466	423	-	(79)
HTC Italia SRL	4,177	-	-	-
HTC Germany GmbH	7,543	4,869	-	-
HTC Iberia S.L.	3,305	3,313	-	-
HTC Poland sp. z.o.o.	15	-	-	1,794
HTC Communication Canada, Ltd.	90	91	-	-
HTC Norway AS.	43	44	-	-
HTC Communication Sweden AB	14	14	-	-
HTC America Holding Inc.	126,330	-	-	(128,209)
ABAXIA SAS	7,321	-	-	-
HTC America Inc.	509,591	-	252,748	104,038
One & Company Design, Inc.	10,418	-	9,965	20,196
HTC America Innovation Inc.	60,318	14,795	-	58,772
Dashwire, Inc.	-	566	-	-
Beats Electronics, LLC	5,553	-	-	-
Saffron Digital Inc.	(9,100)	26	-	84
	$9,124,639	$10,570,682	$263,115	$5,921,717

(Concluded)

								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	$144,135	$4,948	$1,424,006	$48,886	$-	$-	$6,311,281	$216,666
Communication Global Certification Inc.	25,470	874	19,266	661	-	-	109	4
HTC Investment Corporation	323	11	24	1	-	-	-	-
HTC I Investment Corporation	222	8	-	-	21	1	-	-
H.T.C. (B.V.I.) Corp.	-	-	-	-	117	4	-	-
High Tech Computer Asia Pacific Pte. Ltd.	9,598	329	11,931	410	-	-	38	1
HTC America Inc.	542,164	18,613	129,594	4,449	-	-	140,518	4,824
HTC EUROPE CO., LTD.	420,256	14,427	-	-	1,834	63	(291,162)	(9,996)
Exedea Inc.	30	1	-	-	-	-	-	-
HTC NIPPON Corporation	23,190	796	50,267	1,726	-	-	29,958	1,028
HTC America Holding Inc.	179,026	6,146	-	-	-	-	(67,030)	(2,301)
HTC America Innovation Inc.	(34,547)	(1,186)	-	-	37,908	1,301	28,809	989
One & Company Design, Inc.	(2,231)	(77)	-	-	17,385	597	11,273	387
HTC Corporation (Shanghai WGQ)	3,022	104	290	10	-	-	-	-
HTC Belgium BAVA/SPRL	936	32	4,380	150	-	-	-	-
HTC (Australia and New Zealand) PTY. Ltd.	14,460	496	3,312	114	-	-	(869)	(30)
HTC HK, Limited	2,270	78	1,448	50	-	-	-	-
HTC India Private Limited	7,502	258	-	-	516	17	-	-
HTC (Thailand) Limited	1,691	58	933	32	-	-	-	-
HTC Netherlands B.V.	1,077	37	2,655	91	-	-	-	-
HTC Italia SRL.	5,771	198	-	-	868	30	-	-
HTC BRASIL	3,493	120	528	18	-	-	-	-
HTC Communication Co., Ltd.	458,244	15,731	924,433	31,736	-	-	1,649,578	56,630

(Continued)

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	2012
	NT$	US$ (Note 3)	NT$	US$ (Note 3)	NT$	US$ (Note 3)	NT$	US$ (Note 3)
HTC Electronics (Shanghai) Co., Ltd.	($851)	($29)	$73,919	$2,538	$-	$-	$136,661	$4,692
HTC Malaysia Sdn. Bhd.	2,947	101	-	-	992	34	300	10
HTC Innovation Limited	(655)	(22)	-	-	-	-	-	-
HTC Poland sp. z o.o.	1,189	41	1	-	-	-	978	34
HTC Iberia S.L.	1,605	55	1,980	68	-	-	-	-
HTC Germany GmbH.	8,127	279	10,329	355	-	-	-	-
HTC Nordic ApS.	3,139	108	581	20	-	-	(35)	(1)
HTC Luxembourg S.a.r.l.	10,107	347	9,709	333	-	-	-	-
HTC FRANCE CORPORATION	504	17	-	-	1,129	39	-	-
ABAXIA SAS	6,978	240	13,114	450	-	-	-	-
Saffron Digital Inc.	(1,614)	(55)	-	-	761	26	2,471	85
HTC Norway AS	147	5	143	5	-	-	-	-
Dashwire, Inc.	24	1	393	13	-	-	-	-
HTC Communication Sweden AB	273	9	66	2	-	-	-	-
HTC Communication Canada, Ltd.	4,282	147	9,240	317	-	-	5,113	176
Inquisitive Minds, Inc.	24	1	-	-	-	-	-	-
HTC Communication Technologies (SH)	15,559	534	15,131	519	-	-	-	-
FunStream Corporation	-	-	-	-	1	-	-	-
PT. High Tech Computer Indonesia	3,372	116	3,227	111	-	-	-	-
HTC South Eastern Europe Limited liability Company	(35)	(1)	485	17	-	-	-	-
Yoda Co., Ltd.	-	-	-	-	1	-	-	-
HTC Middle East FZ-LLC	-	-	1,965	67	-	-	-	-
HTC America Content Services, Inc.	48	2	23	1	-	-	-	-
	$1,861,272	$63,898	$2,713,373	$93,150	$61,533	$2,112	$7,957,991	$273,198

(Concluded)

(2) 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 had given rise to deferred tax assets as of December 31, 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Temporary differences			
Unrealized royalties	$4,817,745	$5,256,074	$180,441
Unrealized marketing expenses	4,922,310	3,773,168	129,533
Unrealized warranty expense	2,247,065	1,429,433	49,073
Allowance for loss on decline in value of inventory	834,797	950,480	32,630
Unrealized salary and welfare	307,356	413,392	14,192
Unrealized bad-debt expenses	153,749	282,625	9,702
Capitalized expense	69,302	251,698	8,641
Unrealized materials and molding expenses	138,502	147,899	5,077
Unrealized contingent losses on purchase orders	348,990	139,911	4,803
Unrealized sales allowance	71,874	139,088	4,775
Unrealized exchange losses	138,093	42,824	1,470
Other	129,454	441,452	15,155

(Continued)

	2011	2012	
	NT$	NT$	US$ (Note 3)
Loss carryforwards	$90,371	$138,619	$4,759
Tax credit carryforwards	3,125,027	1,644,674	56,462
Total deferred tax assets	17,394,635	15,051,337	516,713
Less: Valuation allowance	(11,132,656)	(6,445,409)	(221,271)
Total deferred tax assets, net	6,261,979	8,605,928	295,442
Deferred tax liabilities			
Unrealized valuation gains on financial instruments	(43,668)	(2,961)	(102)
Unrealized revenue	-	(14,888)	(511)
Unrealized pension cost	(30,778)	(34,594)	(1,187)
Unrealized gain on investment	(240,760)	(470,743)	(16,161)
Unrealized depreciation	(25,056)	(124,751)	(4,283)
Deferred tax liabilities offset against deferred tax assets, net	5,921,717	7,957,991	273,198
Less: Current portion	(2,246,196)	(3,530,215)	(121,193)
Deferred tax assets - non-current	$3,675,521	$4,427,776	$152,005

(Concluded)

(3) The income taxes in 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Current income tax	$11,581,019	$4,049,011	$139,003
Less: Increase in deferred income tax assets	(2,504,033)	(738,171)	(25,341)
Effect of tax law changes	-	(1,298,103)	(44,564)
Add (deduct): Underestimation (overestimation) of prior year's income tax	47,653	(151,465)	(5,200)
Income tax	$9,124,639	$1,861,272	$63,898

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

The Year of Occurrence	Item Exempt from Corporate Income Tax	Exemption Period
2006	Sale of wireless phones or smartphones with 3G or GPS function	2006.12.20-2011.12.19
2007	Sale of wireless phones or smartphones with 3G or GPS function	2007.12.20-2012.12.19
2008	Sale of wireless phones or smartphones with 3.5G function	2010.01.01-2014.12.31
2009	Sale of wireless phones or smartphones with 3.5G function	2015.01.01-2018.09.30

(5) Information on the tax credit carryforwards as of December 31, 2012 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	$81,540	$1,644,674	$56,462	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 is effective from January 1, 2010 till December 31, 2019.

As of December 31, 2012, the losses carryforwards of Dashwire, Inc., Inquisitive Minds, Inc., HTC America Content Services, Inc. and Saffron Digital Inc. that had given rise to deferred income tax assets in the United States and could be carried forward for 20 years were NT$138,619 thousand (US$4,759 thousand).

(6) The imputation credit account ("ICA") information in 2011 and 2012 were as follows:

	2011	2012	
	NT$	NT$	US$ (Note 3)
Balance of ICA	$2,523,575	$5,966,033	$204,814
Unappropriated earnings generated from 1998	75,762,315	53,677,474	1,842,750
Actual/estimated creditable ratio (including income tax payable)	15.99% (Actual ratio)	13.53% (Estimated ratio)	13.65% (Estimated ratio)

The actual creditable ratios for distribution of earnings of 2011 was 15.99% and estimated creditable ratios for distribution of earnings of 2012 was 13.53%. In the calculation of the expected creditable ratio for 2012, the income taxes payable as of December 31, 2012 was included.

Under Income Tax Act, for payment of profit-seeking enterprise income tax for the year of 1998 and the years thereafter, a profit-seeking enterprise may, when making surplus earning distribution, cause its shareholders or association/society members to deduct from the gross amount of tax payable as declared in their respective annual consolidated income tax return for the current year the amount of income tax payable by them on the dividend or the surplus earning distributed to them by the said profit-seeking enterprise. The imputation credit allocated to shareholders is based on its balance as of the date of the dividend distribution. The estimated creditable ratio for 2012 may change when the actual distribution of the imputation credit is made.

HTC's income tax returns through 2009 had been examined by the tax authorities. The income tax returns of CGC and HTC Investment Corporation for the years through 2010 have been examined and approved by the tax authorities. The income tax returns of HTC I Investment Corporation for the years through 2011 have been examined and approved by the tax authorities.

25. EARNINGS PER SHARE

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

The Accounting Research and Development Foundation issued Interpretation 2007-052, which 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 to 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. The 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 of HTC for 2011 and 2012 is as follows:

					2011
	Amount (Numerator)		Shares	EPS (In Dollars)	
	Before Income Tax	After Income Tax	(Denominator) (In Thousands)	Before Income Tax	After Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$69,849,671	$61,975,796	845,319	$82.63	$73.32
Bonus to employees	-	-	16,527		
Diluted EPS	$69,849,671	$61,975,796	861,846	$81.05	$71.91

					2012
	Amount (Numerator)		Shares	EPS (In Dollars)	
	Before Income Tax	After Income Tax	(Denominator) (In Thousands)	Before Income Tax	After Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$16,925,103	$16,780,968	831,980	$20.34	$20.17
Bonus to employees	-	-	3,748		
Diluted EPS	$16,925,103	$16,780,968	835,728	$20.25	$20.08

					2012
	Amount (Numerator)		Shares	EPS (In Dollars)	
	Before Income Tax	After Income Tax	(Denominator) (In Thousands)	Before Income Tax	After Income Tax
	US$ (Note 3)	US$ (Note 3)		US$ (Note 3)	US$ (Note 3)
Basic EPS	$581,040	$576,092	831,980	$0.70	$0.69
Bonus to employees	-	-	3,748		
Diluted EPS	$581,040	$576,092	835,728	$0.70	$0.69

26. FINANCIAL INSTRUMENTS

(1) Fair Value of Financial Instruments

a. Non-derivative financial instruments

						December 31
	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	$736,031	$736,031	$37,902	$1,301	$37,902	$1,301
Held-to-maturity financial assets - current	-	-	101,459	3,483	101,436	3,482
Available-for-sale financial assets - non-current	279	279	197	7	197	7
Held-to-maturity financial assets - non-current	204,597	203,783	-	-	-	-
Financial assets carried at cost - non-current	3,408,654	3,408,654	4,304,907	147,788	4,304,907	147,788

b. Derivative financial instruments

						December 31
	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	$256,868	$256,868	$6,950	$238	$6,950	$238
Hedging derivative assets - current	-	-	204,519	7,021	204,519	7,021

(2) Methods and Assumptions Used in Determining Fair Values of Financial Instruments

The financial instruments listed above don' t include 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 because of their short maturities.

For other non-current financial assets or liabilities, their fair values are 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 or 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 other financial 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.

(3) Fair Values of Financial Instruments Based on Quoted Market Prices or Estimates Made through Valuation Methods

	Fair Values Based on Quoted Market Prices			Fair Values Based on Estimates Made through Valuation Methods		
	December 31			December 31		
	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	$-	$-	$-	$256,868	$6,950	$238
Available-for-sale financial assets - current	736,031	37,902	1,301	-	-	-
Held-to-maturity financial assets - current	-	101,436	3,482	-	-	-
Available-for-sale financial assets - non-current	279	197	7	-	-	-
Held-to-maturity financial assets - non-current	203,783	-	-	-	-	-
Financial assets carried at cost - non-current	-	-	-	3,408,654	4,304,907	147,788

The Company recognized unrealized gains of NT$3,824 thousand and NT$6,777 thousand (US$232 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets in 2011 and 2012, respectively.

As of December 31, 2011 and 2012, financial assets exposed to fair value interest rate risk amounted to NT$204,597 thousand and NT$101,459 thousand (US$3,483 thousand), respectively, and financial assets exposed to cash flow interest rate risk amounted to NT$59,356,763 thousand and NT$21,275,356 thousand (US$730,384 thousand), respectively.

(4) 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 on these contracts compensate for the losses on the hedged items and vice versa. 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. Some factors affecting credit risk are credit risk concentration, components of financial assets and the amounts of contracts. The counter-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Thus, credit risk is not expected to be material.

c. Liquidity risk

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

27. RELATED-PARTY TRANSACTIONS

(1) 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
Way-Lien Technology Co., Ltd.	Significant stockholder of HTC
Captec Partners Management Corp.	Main director is the chairperson of HTC
WTI Investment International, Ltd.	Its significant stockholder in substance is HTC's chairperson
VIABASE CO., LTD.	Chairperson of its parent company is the same as HTC's
Faith Hope & Love Limited	Its significant stockholder in substance is HTC's chairperson
Wozai Information Technology (Beijing), LLC	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.
Employees' Welfare Committee	Employees' Welfare Committee of HTC
HTC Cultural and Educational Foundation	A non-profit organization with over one third of its total funds donated by the Company
HTC Social Welfare and Charity Foundation	A nonprofit organization with over one third of its total funds donated by the Company

(2) Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	2011		2012		
	Amount	% to Total Net Purchases	Amount		% to Total Net Purchases
Related Party	NT$		NT$	US$ (Note 3)	
VIA Telecom Company Limited	$-	-	$63,675	$2,186	-
Chander Electronics Corp.	172,540	-	-	-	-
	$172,540	-	$63,675	$2,186	-

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

Sales and Services Provided

	2011		2012		
	Amount	% to Total Revenues	Amount		% to Total Revenues
Related Party	NT$		NT$	US$ (Note 3)	
Faith Hope & Love Limited	$-	-	$2,236,688	$76,786	1
Employees' Welfare Committee	52,540	-	220,037	7,554	-
Others	2,721	-	6,283	215	-
	$55,261	-	$2,463,008	$84,555	1

The selling prices for products sold to related parties were similar to those sold to third parties, except for HTC Employees' Welfare Committee. The selling prices for products sold to Faith Hope & Love Limited have no comparison with those sold to third parties. The collection terms for products sold to related parties were similar to those for sales to third parties, except Faith Hope & Love Limited.

(3) Accounts Receivable

	December 31				
	2011		2012		
	Amount	% to Total Notes and Accounts Receivable	Amount		% to Total Notes and Accounts Receivable
Related Party	NT$		NT$	US$ (Note 3)	
Faith Hope & Love Limited	$-	-	$218,468	$7,500	-
Others	473	-	2,582	89	-
	$473	-	$221,050	$7,589	-

(4) Accounts Payable

	December 31				
	2011		2012		
	Amount	% to Total Notes and Accounts Payable	Amount		% to Total Notes and Accounts Payable
Related Party	NT$		NT$	US$ (Note 3)	
VIA Telecom Company Limited	$-	-	$19,269	$662	-

(5) Other Receivable

	December 31				
	2011		2012		
	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
Related Party	NT$		NT$	US$ (Note 3)	
Beats Electronics, LLC	$-	-	$6,600,093	$226,582	85
Chander Electronics Corp.	966	-	-	-	-
	$966	-	$6,600,093	$226,582	85

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

(6) Accrued Expenses

	December 31				
	2011		2012		
	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
Related Party	NT$		NT$	US$ (Note 3)	
Captec Partners Management Corp.	$-	-	$3,398	$117	-
HTC Cultural and Educational Foundation	217,800	1	-	-	-
Way-Lien Technology Inc.	210	-	-	-	-
	$218,010	1	$3,398	$117	-

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

(7) Service Fees

	December 31				
	2011		2012		
	Amount	% to Warranty Expenses	Amount		% to Warranty Expenses
Related Party	NT$		NT$	US$ (Note 3)	
Captec Partners Management Corp.	$-	-	$3,236	$111	-
Way-Lien Technology Inc.	2,400	-	800	28	-
	$2,400	-	$4,036	$139	-

Service fees resulted from obtaining business consulting service.

(8) Leasing - Lessee

Rental Revenues

	2011		2012		
	Amount	% to Total Rental Revenues	Amount		% to Total Rental Revenues
Related Party	NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$920	100	$-	$-	-

The Company leases the unused parcel of land and building to the aforementioned related parties. The rental revenue was determined at the prevailing rates in the surrounding area.

Operating expenses - rental expenses

	December 31				
	2011		2012		
	Amount	% to Total Rental Revenues	Amount		% to Total Rental Revenues
Related Party	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$5,209	1	$5,209	$179	2

The Company leased staff dormitory owned by VIA Technologies, Inc. under 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.

(9) Donation Expenses

	2011		2012		
	Amount	% to Total Donation Expenses	Amount		% to Total Donation Expenses
Related Party	NT$		NT$	US$ (Note 3)	
HTC Cultural and Educational Foundation	$150,000	39	$836	$29	14
HTC Social Welfare and Charity Foundation	150,000	39	-	-	-
	$300,000	78	$836	$29	14

Note 18 has more information on the HTC Cultural and Educational Foundation.

(10) Trademark and Technology License Agreement

Beats Electronics, LLC

To enhance 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 was NT$269,565 thousand (US$9,254 thousand) in 2012. As of December 31, 2012, the unpaid royalty was NT$130,960 thousand (US$4,496 thousand).

Openmoko, Inc.

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

(11) Property Transaction

The Company bought the auxiliary facilities of buildings from Chander Electronics Corp. for NT$6,555 in 2011 and NT$55,891 thousand (US$1,919 thousand) in 2012.

In 2012, the Company bought building equipment from VIA Technologies, Inc. for NT$5,264 thousand (US$181 thousand). As of December 31, 2012, there was NT$2,127 thousand (US$73 thousand) unpaid and was accounted for under "payable for purchase of equipment".

S3 Graphics Co, Ltd. ("S3 Graphics") owns patents on key graphics technologies, which can strengthen the Company's patent portfolio and counteract the patent rights of competitors and potential licensors around the globe. In the meeting on July 6, 2011, the Board of Directors resolved to invest in S3 Graphics, and in November 2011, the Company obtained all patents owned by S3 Graphics through the purchase of all the shares of S3 Graphics from VIABASE CO., LTD. and WTI Investment International, Ltd. by increasing the capital of HTC Investment One (BVI) Corporation by an amount of US$300,000 thousand.

(12) Patent Litigation

Note 31 has more information.

(13) 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:

		2012			
Name of Counterparty	Account	Maximum Balance	Ending Balance	Interest Rate	Interest Revenue
Beats Electronics, LLC	Other receivable	$6,554,025 (US$225,000)	$6,554,025 (US$225,000)	1.9466%-3.8188%	$82,027 (US$2,816)

(14) Compensation of Directors, Supervisors and Management Personnel

	2011	2012	
	NT$	NT$	US$ (Note 3)
Salaries	$166,422	$206,089	$7,075
Incentives (Note a)	351,024	29,575	1,015
Special compensation	-	-	-
Bonus (Note b)	680,387	-	-
	$1,197,833	$235,664	$8,090

Note: a. Due to uncertainty of distribution of part of the incentives for 2012, the disclosure of incentives for 2012 was only for the amount that would be distributed exactly.

b. The information about bonus to employees for 2012 is not available since the related proposal had not yet been made in the stockholders' meeting. The compensation of directors, supervisors and management personnel for 2011 included bonuses appropriated from the earnings of 2011, which were approved by the stockholders in the annual meeting in 2012.

The Company's disclosure of the compensation of directors, supervisors, president, vice president and management personnel for 2011 and 2012 was in compliance with Order VI-0970053275 issued by the Financial Supervisory Commission under the Executive Yuan. The disclosure of the compensation included salaries, incentives, special compensation, business expenses and bonus.

28. PLEDGED ASSETS

To protect the rights and interests of its employees, HTC placed an accrued employee bonus of NT$3,645,820 thousand (US$125,161 thousand) in a trust account in September 2012. The trust account, which is under restricted assets - current, had amounted to NT$3,645,820 thousand (US$125, 161 thousand) as of December 31, 2012.

As of December 31, 2011 and 2012, the Company had provided time deposits of NT$68,700 thousand and NT$3,700 thousand (US$127 thousand), respectively, as collateral for rental deposits and as part of the requirements for HTC to get a certificate from the National Tax Administration of the Northern Taiwan Province stating that it had no pending income tax.

29. COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, unused letters of credit amounted to US$60 thousand and EUR107 thousand.

30. SIGNIFICANT CONTRACTS

Patent Agreement

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

Contractor	Contract Term	Description
Apple, Inc.	November 11, 2012 - November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalties payable as prescribed.
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use an 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.
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use the platform patent license; 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 stated 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 stated 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 stated 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.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated 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.

31. OTHER EVENT

(1) 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, IPCom has filed motion for reconsideration on the two patents with the Appeal court. In December 2012, the district court has granted a stay on case currently in the US pending appeal decision.

As of March 18, 2013, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

b. From March 2010 onwards, Apple Inc. ("Apple") and the Company have filed patent infringement actions against the other respectively in the U.S. International Trade Commission ("ITC"), U.S. District Court for the District of Delaware, German district courts, and English High Court. On November 11, 2012, the two companies have reached a global settlement that includes the dismissal of all current lawsuits and a ten-year license agreement. The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalties payable as prescribed.

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. In January 2013, a U.S. bankruptcy judge presently approved the sale of 1,100 Kodak digital image patents including the patents-in-suit to a third party. All litigation procedures involving HTC have been stayed.

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 the Company 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 March 18, 2013, the date of the accompanying independent auditors' report, there had been no critical hearing nor had a court decision been made, except for the above.

e. The Company had shared lawsuit-related costs on the basis of common benefits and agreements between the Company and its vendors and customers. For 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 contingent lawsuits on its business and financial condition, and recognized its estimable cost.

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

				December 31
		2011		2012
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets				
Monetary items				
USD	$3,143,462	30.28	$2,967,669	29.13
EUR	498,383	39.19	317,011	38.42
GBP	54,254	46.73	71,728	47.09
JPY	373,750	0.3906	10,626,742	0.3383
RMB	1,344,825	4.77	2,142,619	4.68
Non-monetary items				
USD	89,493	30.28	123,781	29.13
Investments accounted for by the equity method				
USD	2,500	30.28	193,639	29.13
Financial liabilities				
Monetary items				
USD	3,372,400	30.28	3,107,166	29.13
EUR	583,741	39.19	297,681	38.42
GBP	53,624	46.73	53,183	47.09
JPY	678,211	0.3906	17,276,121	0.3383
RMB	1,463,205	4.77	2,310,079	4.68

32. OPERATING SEGMENT

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 - "Operating Segments," the Company is organized and managed as a single reportable business segment. The Company's operations are mainly the research, design, manufacture and sale of smart handheld devices, and the operating revenue is more than 90 percent of the total revenue.

Operating segment financial information is as follows:

(1) Geographical Areas

The Company's non-current assets (other than financial instruments, deferred income tax assets and post-employment benefit assets) located in Taiwan and in a foreign country as of December 31, 2011 and 2012 and revenues from Taiwan and from a foreign country that were 10 percent or more of consolidated total revenues for the years ended December 31, 2011 and 2012 were as follows:

			Non-current Assets			Revenues
			December 31			Year Ended December 31
	2011		2012	2011		2012
	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Taiwan	$24,807,110	$30,030,135	$1,030,936	$20,140,051	$20,403,572	$700,456
Country Y	10,271,855	1,249,807	42,906	215,842,904	68,200,497	2,341,326
Country Z	5,240,612	5,080,203	174,404	21,866,615	53,557,704	1,838,639
Others	13,046,109	11,215,773	385,038	207,945,203	146,858,402	5,041,656
	$53,365,686	$47,575,918	$1,633,284	$465,794,773	$289,020,175	$9,922,077

(2) Major Customers

Revenues in 2011 and 2012, from transactions with a single external customer that were 10 percent or more were as follows:

	2011	2012	
Customer	NT$	NT$	US$ (Note 3)
A	$75,243,879	$20,487,411	$703,334
B	47,541,529	16,636,181	571,121
C	63,091,960	11,210,923	384,871
	$185,877,368	$48,334,515	$1,659,326

33. PRE-DISCLOSURE FOR THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

(1) 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 Accounting Research and Development Foundation 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, HTC's vice president. The main contents of the plan, schedule and status of execution as of December 31, 2012 are as follows:

Contents of Plan	Responsible Department	Status of Execution
Assessment phase: 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 of 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 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, Internal audit and Information technology	Completed
Preparation phase: 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 the "First-time Adoption of International Financial Reporting Standards"	Finance and accounting	Completed
Adjust the related information technology system and internal control.	Finance and accounting, Internal audit and Information technology	Completed
Conduct phase II internal training of employees.	Finance and accounting and Talent management	Completed
Implementation phase: January 1, 2012 to December 31, 2013		
Make a test run of the adjusted information technology system.	Finance and accounting and Information technology	Completed
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

(2) Significant differences identified by the Company as of December 31, 2012 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 as follows:

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

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs Amount			
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference			Item	Note
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Assets							
Current assets							
Cash and cash equivalents	$87,501,508	$-	($25,474,750)	$62,026,758	$2,129,382	Cash and cash equivalents	a)
-	-	-	25,474,750	25,474,750	874,549	Other financial assets - current	a)
Financial assets at fair value through profit or loss - current	256,868	-	-	256,868	8,818	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	736,031	-	-	736,031	25,268	Available-for-sale financial assets - current	
Notes and accounts receivable, net	64,719,791	-	-	64,719,791	2,221,834	Notes and accounts receivable, net	
Other financial assets - current	1,405,911	-	-	1,405,911	48,265	Other receivables	
Inventories	28,430,590	-	-	28,430,590	976,024	Inventories	
Prepayments	6,507,516	-	-	6,507,516	223,403	Prepayments	
Deferred income tax assets - current	2,246,196	-	(2,246,196)	-	-	-	b)
Other current assets	1,055,480	-	-	1,055,480	36,235	Other current assets	
Total current assets	192,859,891	-	(2,246,196)	190,613,695	6,543,778		
Long-term investments							
Available-for-sale financial assets - non-current	279	-	-	279	10	Available-for-sale financial assets - non-current	
Held-to-maturity financial assets - non-current	204,597	-	-	204,597	7,024	Held-to-maturity financial assets - non-current	
Financial assets carried at cost - non-current	3,408,654	-	-	3,408,654	117,019	Financial assets carried at cost - non-current	
Investments accounted for by the equity method	71,732	-	-	71,732	2,463	Investments accounted for by the equity method	
Total long-term investments	3,685,262	-	-	3,685,262	126,516		
Properties	21,512,478	-	203,155	21,715,633	745,499	Property, plant and equipment	g), h)
Intangible assets							
Patents	11,152,098	-	-	11,152,098	382,852	Patents	
Goodwill	10,812,564	-	-	10,812,564	371,196	Goodwill	
Deferred pension cost	342	(342)	-	-	-	-	d)
Other intangible assets	595,784	-	207,033	802,817	27,560	Other intangible assets	g)
Total intangible assets	22,560,788	(342)	207,033	22,767,479	781,608		

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs Amount			
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference			Item	Note
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Other assets							
Refundable deposits	185,306	-	-	185,306	6,362	Refundable deposits	
Deferred charges	763,516	-	(763,516)	-	-	Deferred charges	g)
Deferred income tax assets - non-current	3,675,521	58,000	2,586,457	6,319,978	216,965	Deferred income tax assets	b), c)
Restricted assets - non-current	68,700	-	-	68,700	2,358	Restricted assets - non-current	
Other	10,485,501	(83,052)	353,328	10,755,777	369,246	Other non-current assets	d), g), h)
Total other assets	15,178,544	(25,052)	2,176,269	17,329,761	594,931		
Total	$255,796,963	($25,394)	$340,261	$256,111,830	$8,792,332		
Liabilities and stockholders' equity							
Current liabilities							
Notes and accounts payable	$78,473,130	$-	$-	$78,473,130	$2,693,987	Notes and accounts payable	
Income tax payable	10,570,682	-	-	10,570,682	362,892	Current tax liabilities	
Accrued expenses	46,171,290	99,321	-	46,270,611	1,588,473	Accrued expenses	f)
Payable for purchase of equipment	812,240	-	-	812,240	27,884	Payable for purchase of equipment	
-	-	-	15,133,275	15,133,275	519,526	Provisions - current	e)
Other current liabilities	17,307,355	-	(15,133,275)	2,174,080	74,636	Other current liabilities	e)
Total current liabilities	153,334,697	99,321	-	153,434,018	5,267,398		
Other liabilities							
Guarantee deposits received	42,946	-	-	42,946	1,474	Guarantee deposits received	
-	-	-	340,261	340,261	11,681	Deferred income tax liabilities	b)
	42,946	-	340,261	383,207	13,155		
Total liabilities	153,377,643	99,321	340,261	153,817,225	5,280,553		
Stockholders' equity							
Common stock	8,520,521	-	-	8,520,521	292,510	Common stock	
Capital surplus						Capital surplus	
Additional paid-in capital - issuance of shares in excess of par	14,809,608	-	-	14,809,608	508,415	Additional paid-in capital - issuance of shares in excess of par	
Treasury stock transactions	1,730,458	-	-	1,730,458	59,407	Treasury stock transactions	
Long-term equity investments	18,037	(18,037)	-	-	-	-	i)
Merger	24,423	-	-	24,423	838	Merger	
Expired stock options	37,068	-	-	37,068	1,272	Expired stock options	
Retained earnings							
Legal reserve	10,273,674	-	-	10,273,674	352,696	Legal reserve	
Special reserve	580,856	-	-	580,856	19,941	Special reserve	
Accumulated earnings	75,762,315	(74,837)	-	75,687,478	2,598,355	Accumulated earnings	c), d), f), i), j)

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs Amount			
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference			Item	Note
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Other equity							
Cumulative translation adjustments	32,134	(32,134)	-	-	-	Cumulative translation adjustments	j)
Net loss not recognized as pension cost	(293)	293	-	-	-	-	d)
Unrealized valuation gain on financial instruments	2,939	-	-	2,939	101	Unrealized valuation gain on financial instruments	
Treasury stock	(10,365,144)	-	-	(10,365,144)	(355,836)	Treasury stock	
Equity attributable to stockholders of the parent	101,426,596	(124,715)	-	101,301,881	3,477,699		
Minority interest	992,724	-	-	992,724	34,080	Non-controlling interests	
Total stockholders' equity	102,419,320	(124,715)	-	102,294,605	3,511,779		
Total	$255,796,963	($25,394)	$340,261	$256,111,830	$8,792,332		

(Concluded)

Reconciliation of the balance sheet as of December 31, 2012:

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs Amount			
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference			Item	Note
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Assets							
Current assets							
Cash and cash equivalents	$53,878,067	$-	($2,911,924)	$50,966,143	$1,749,670	Cash and cash equivalents	a)
-	-	-	2,911,924	2,911,924	99,967	Other financial assets - current	a)
Financial assets at fair value through profit or loss - current	6,950	-	-	6,950	238	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	37,902	-	-	37,902	1,301	Available-for-sale financial assets - current	
Held-to-maturity financial assets - current	101,459	-	-	101,459	3,483	Held-to-maturity financial assets - current	
Hedging derivative assets - current	204,519	-	-	204,519	7,021	Hedging derivative assets - current	
Accounts receivable, net	41,253,826	-	-	41,253,826	1,416,246	Accounts receivable, net	
Other receivables - related parties	6,600,093	-	-	6,600,093	226,582	Other receivables - related parties	
Other financial assets - current	1,172,090	-		1,172,090	40,238	Other receivables	
Inventories	23,809,377	-	-	23,809,377	817,377	Inventories	
Prepayments	4,965,814	-	-	4,965,814	170,477	Prepayments	
Deferred income tax assets - current	3,530,215	-	(3,530,215)	-	-	-	b)
Restricted assets - current	3,645,860	-	-	3,645,860	125,162	Restricted assets - current	
Other current assets	452,808	-	-	452,808	15,545	Other current assets	
Total current assets	139,658,980	-	(3,530,215)	136,128,765	4,673,307		

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs Amount		Item	Note
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference				
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Long-term investments							
Available-for-sale financial assets - noncurrent	$197	$-	$-	$197	$7	Available-for-sale financial assets - noncurrent	
Financial assets carried at cost - noncurrent	4,304,907	-	-	4,304,907	147,788	Financial assets carried at cost - noncurrent	
Investments accounted for by the equity method	5,892,168	-	-	5,892,168	202,278	Investments accounted for by the equity method	
Total long-term investments	10,197,272	-	-	10,197,272	350,073		
Properties	25,651,292	-	339,474	25,990,766	892,264	Property, plant and equipment	g), h)
Intangible assets							
Patents	9,180,674	-	-	9,180,674	315,173	Patents	
Goodwill	1,534,366	-	-	1,534,366	52,675	Goodwill	
Deferred pension cost	269	(269)	-	-	-	-	d)
Other intangible assets	805,365	-	162,765	968,130	33,236	Other intangible assets	g)
Total intangible assets	11,520,674	(269)	162,765	11,683,170	401,084		
Other assets							
Refundable deposits	190,142	-	-	190,142	6,528	Refundable deposits	
Deferred charges	897,164	-	(897,164)	-	-	Deferred charges	g)
Long - term receivable	4,369,350	-	-	4,369,350	150,000	Long - term receivable	
Deferred income tax assets - non-current	4,427,776	83,915	4,178,151	8,689,842	298,322	Deferred income tax assets	b), c), d)
Restricted assets - non-current	3,660	-	-	3,660	126	Restricted assets	
Other	9,687,816	(86,716)	394,925	9,996,025	343,164	Other assets - other	d), g), h)
Total other assets	19,575,908	(2,801)	3,675,912	23,249,019	798,140		
Total	$206,604,126	($3,070)	$647,936	$207,248,992	$7,114,868		
Liabilities and stockholders' equity							
Current liabilities							
Notes and accounts payable	$73,618,197	$-	$-	$73,618,197	$2,527,316	Notes and accounts payable	
Income tax payable	2,713,373	-	-	2,713,373	93,150	Current tax liabilities	
Accrued expenses	37,376,493	93,451	-	37,469,944	1,286,345	Accrued expenses	f)
Payable for purchase of equipment	1,471,529	-	-	1,471,529	50,518	Payable for purchase of equipment	
-	-	-	8,881,514	8,881,514	304,903	Provisions - current	e)
Other current liabilities	10,995,320	-	(8,881,514)	2,113,806	72,567	Other current liabilities	e)
Total current liabilities	126,174,912	93,451	-	126,268,363	4,334,799		
Other liabilities							
Guarantee deposits received	59,999	-	-	59,999	2,060	Guarantee deposits received	
-	-	-	647,936	647,936	22,243	Deferred income tax liabilities	b)
	59,999	-	647,936	707,935	24,303		
Total liabilities	126,234,911	93,451	647,936	126,976,298	4,359,102		

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs Amount		Item	Note
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference				
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Stockholders' equity							
Common stock	$8,520,521	$-	$-	$8,520,521	$292,510	Common stock	
Capital surplus		-	-			Capital surplus	
Additional paid-in capital - issuance of shares in excess of par	14,809,608	-	-	14,809,608	508,415	Additional paid-in capital - issuance of shares in excess of par	
Treasury stock transactions	1,730,458	-	-	1,730,458	59,407	Treasury stock transactions	
Long-term equity investments	18,037	(18,037)		-	-	-	i)
Merger	24,423	-	-	24,423	838	Merger	
Expired stock options	37,068	-	-	37,068	1,273	Expired stock options	
Retained earnings							
Legal reserve	16,471,254	-	-	16,471,254	565,459	Legal reserve	
Accumulated earnings	53,677,474	(46,697)	-	53,630,777	1,841,147	Accumulated earnings	c), d), f), i), j)
Other equity							
Cumulative translation adjustments	(1,057,559)	(32,134)	-	(1,089,693)	(37,409)	Cumulative translation adjustments	j)
Net loss not recognized as pension cost	(347)	347	-	-	-	-	d)
Unrealized valuation gain on financial instruments	203,768	-	-	203,768	6,995	Unrealized valuation gain on financial instruments	
Treasury stock	(14,065,490)	-	-	(14,065,490)	(482,869)	Treasury stock	
Total stockholders' equity	80,369,215	(96,521)	-	80,272,694	2,755,766		
Total	$206,604,126	($3,070)	$647,936	$207,248,992	$7,114,868		

(Concluded)

Reconciliation of the consolidated income statement for the year ended December 31, 2012:

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs Amount		Item	Note
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference				
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Revenues	$289,020,175	$-	$-	$289,020,175	$9,922,077	Revenues	
Cost of revenues	216,095,098	(5,772)	-	216,089,326	7,418,357	Cost of revenues	d), f)
Gross profit	72,925,077	5,772	-	72,930,849	2,503,720	Gross profit	
Operating expenses						Operating expenses	
Research and development	15,489,969	3,170	-	15,493,139	531,880	Research and development	d), f)
General and administrative	6,227,469	364	-	6,227,833	213,802	General and administrative	d), f)
Selling and marketing	32,387,932	(5,369)	-	32,382,563	1,111,695	Selling and marketing	d), f)
Total operating expenses	54,105,370	(1,835)	-	54,103,535	1,857,377	Total operating expenses	
Operating income	18,819,707	7,607	-	18,827,314	646,343	Operating income	

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs Amount		Item	Note
Item	Amount	Measurement or Recognition Inconsistency	Presentation Difference				
	NT$	NT$	NT$	NT$	US$ (Note 3)		
Non-operating income and gains						Non-operating income and gains	
Interest income	$617,635	$-	$-	$617,635	$21,204	Interest income	
Investment gain	387,478	-	-	387,478	13,302	Gain on sale of investments	
Exchange gain	666,883	-	-	666,883	22,894	Exchange gain	
Valuation gain on financial assets	17,417	-	-	17,417	597	Valuation gain on financial assets	
Other	550,897	-	-	550,897	18,913	Other	
Total non-operating income and gains	2,240,310	-	-	2,240,310	76,910	Total non-operating income and gains	
Non-operating expenses and losses						Non-operating expenses and losses	
Interest expense	1,715	-	-	1,715	59	Interest expense	
Loss on disposal of Investments	165,184	-	-	165,184	5,671	Loss on disposal of Investments	
Loss on disposal of properties	6,395	-	-	6,395	220	Loss on disposal of properties	
Impairment loss	1,313,353	-	-	1,313,353	45,087	Impairment loss	
Other	122,912	-	-	122,912	4,219	Other	
Total non-operating expenses and losses	1,609,559	-	-	1,609,559	55,256	Total non-operating expenses and losses	
Income before income tax	19,450,458	7,607	-	19,458,065	667,997	Income before income tax	
Income tax	(1,861,272)	25,000	-	(1,836,272)	(63,039)	Income tax	c)
Net income	$17,589,186	$32,607	$-	17,621,793	604,958	Net income	
				(1,089,693)	(37,409)	Exchange differences on translating foreign operations	
				6,777	232	Unrealized valuation gain on available-for-sale financial assets	
				194,052	6,662	Unrealized valuation loss on financial instruments for cash flow hedging	
				(5,383)	(185)	Actuarial loss on defined benefit pension plan	d)
				915	31	Income tax relating to components of OCI	d)
				(893,332)	(30,669)	OCI for the year (net of tax)	
				$16,728,461	$574,289	Total comprehensive income	

Note:

a) 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. Thus, as of January 1, 2012 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$25,474,750 thousand (US$874,549 thousand) and NT$2,911,924 thousand (US$99,967 thousand), respectively, in "cash and cash equivalents" and increases by the same amounts in "other current financial assets - current."

b) Under ROC GAAP, a deferred income tax asset or liability should be classified as current or noncurrent in accordance with the classification of the related asset or liability for financial reporting. 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 on the basis of 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. Thus, as of January 1, 2012 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$2,246,196 thousand (US$77,112 thousand) and NT$3,530,215 thousand (US$121,193 thousand), respectively, in "deferred income tax asset - current" and increases by the same amounts in "deferred income tax assets - non-current."

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 only to the extent that it is highly probable that taxable profits will be available against which the deferred tax assets can be used; thus, a valuation allowance account is not used. Thus, as of January 1, 2012 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$11,132,656 thousand (US$382,185 thousand) and NT$6,445,409 thousand (US$221,271 thousand), respectively, in "deferred income tax assets" and in the valuation allowance account. Also, as of January 1, 2012 and December 31, 2012, the reclassification adjustment resulted in increases of NT$340,261 thousand (US$11,681 thousand) and NT$647,936 thousand (US$22,244 thousand), respectively, in "deferred income tax assets" and "deferred income tax liabilities".

c) Under ROC GAAP, deferred income tax assets or liabilities from intergroup sales are recognized for the change in tax basis using the tax rate of ROC. However, under IFRSs, the buyer's tax rates are used instead. Thus, the IFRSs adjustment as of January 1, 2012 resulted in increases of NT$58,000 thousand (US$1,991 thousand) each in "deferred income tax assets" and "accumulated earnings." In addition, the evaluation adjustment made on December 31, 2012 resulted in increases of NT$83,000 thousand (US$2,849 thousand) in "deferred income tax assets" and in "accumulated earnings" and a decrease in "income tax" by NT$25,000 thousand (US$858 thousand).

d) Under IFRS 1, the Company elected to recognize all cumulative actuarial gains and losses relating to employee benefits at the date of transition to IFRSs. Thus, as of January 1, 2012, the IFRSs adjustment resulted in a decrease of NT$83,687 thousand (US$2,873 thousand) in "accumulated earnings" due to decreases in "deferred pension cost" by NT$342 thousand (US$12 thousand), "defined benefit assets" by NT$83,052 thousand (US$2,851 thousand) and "net loss not recognized as pension cost" by NT$293 thousand (US$10 thousand).

As of December 31, 2012, the IFRSs adjustment resulted in a decrease in "accumulated earnings" by NT$86,417 thousand (US$2,967 thousand) due to decreases in "deferred pension cost" by NT$269 thousand (US$9 thousand), "defined benefit assets" by NT$86,716 thousand (US$2,977 thousand), "net loss not recognized as pension cost" by NT$347 thousand (US$12 thousand) and increase in "deferred income tax assets" by NT$915 thousand (US$31 thousand). In addition, this adjustment resulted in decreases in "cost of revenues" by NT$473 thousand (US$16 thousand), "selling and marketing expenses" by NT$526 thousand (US$18 thousand), "general and administrative expenses" by NT$193 thousand (US$7 thousand) and "research and developing expenses" by NT$545 thousand (US$19 thousand).

e) 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. Thus, as of January 1, 2012 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$15,133,275 thousand (US$519,526 thousand) and NT$8,881,514 thousand (US$304,903 thousand), respectively, in "other current liabilities" and increases by the same amounts in "provisions - current."

f) Accumulated compensated absences are 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. Thus, as of January 1, 2012, the IFRSs adjustment resulted in an increase in "accrued expenses" by NT$99,321 thousand (US$3,410 thousand) and a decrease by the same amount in "accumulated earnings." In addition, the evaluation adjustment made on December 31, 2012 resulted in (a) a decrease in "accumulated earnings" by NT$93,451 thousand (US$3,208 thousand) due to an increase of "accrued expenses"; (b) decreases in "cost of revenues" by NT$5,299 thousand (US$182 thousand) and "selling and marketing expenses" by NT$4,843 thousand (US$166 thousand) and (c) increases in "general and administrative expenses" by NT$557 thousand (US$19 thousand) and "research and developing expenses" by NT$3,715 thousand (US$128 thousand).

g) Under ROC GAAP, deferred charges are classified under other assets. Transition to IFRSs, deferred charges are classified under "property, plant and equipment", "other intangible assets" and "other assets - other" according to the nature.

As of January 1, 2012 and December 31, 2012, the Company reclassified NT$410,217 thousand (US$14,083 thousand) and NT$571,485 thousand (US$19,619 thousand), respectively, of "deferred charges" to "property, plant and equipment"; and reclassified NT$207,033 thousand (US$7,107 thousand) and NT$162,765 thousand (US$5,588 thousand), respectively, of "deferred charges" to "other intangible assets" and reclassified NT$146,266 thousand (US$5,021 thousand) and NT$162,914 thousand (US$5,593 thousand), respectively, of "deferred charges" to "other assets - other".

h) The Company purchased fixed assets and made prepayments, pursuant to the "Rules Governing the Preparation of Financial Statements by Securities Issuers". Such prepayments are presented as "properties". Transition to IFRSs, the prepayments are classified under "other assets - other". As of January 1, 2012 and December 31, 2012, the Company reclassified NT$207,062 thousand (US$7,108 thousand) and NT$232,011 thousand (US$7,965 thousand), respectively, of "property, plant and equipment" to "other assets - other".

i) Under ROC GAAP, if an investee issues new shares and an investor does not purchase new shares proportionately, capital surplus and the long-term equity investment accounts should be adjusted for the change in the investor's holding percentage and interest in the investee' s net assets. By contrast, under IFRSs, a reduction of investor's ownership interest that results in loss of significant influence on or control over an investee would be treated as a deemed disposal, with the related gain or loss recognized in profit or loss. An entity may elect not to adjust the difference retrospectively, and the Company elected to use the exemption from retrospective application. The IFRSs adjustment resulted in a decrease of capital surplus - long-term equity investments of NT$18,037 thousand (US$619 thousand) and a corresponding increase of accumulated earnings by related rules.

j) 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 should exclude cumulative translation differences that arose before the date of transition to IFRSs. Therefore, the IFRSs adjustment resulted in a decrease in cumulative translation differences and an increase in accumulated earnings by NT$32,134 thousand (US$1,103 thousand) each.

(3) Under IFRS 1, an entity that adopts IFRSs for the first time should apply all IFRSs in preparing financial statements and should make adjustments retrospectively; however, the entity may select to use certain optional exemptions and mandatory exemptions stated in IFRS 1. The main optional exemptions the Company adopted are as follows:

Business combinations:

The Company elected not to apply IFRS 3 - Business Combination retrospectively to business combinations that occurred before the date of transition to IFRSs. Thus, in the opening balance sheet, the amount of goodwill generated from past business combinations remains the same as that shown under R.O.C. GAAP as of December 31, 2011.

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 should be treated as assets and liabilities of the foreign operation. Thus, goodwill and those fair value adjustments should be expressed in the foreign operation's functional currency and should 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. Thus, 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.

Share-based payment transactions:

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

Employee benefits:

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

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 should 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; thus, the actual results may vary.

(4) Special reserve at the date of transition to IFRSs

Under order VI-1010012865 issued by FSC on April 6, 2012, on the first-time adoption of IFRSs, if an entity elects to use the exemption application specified in IFRS 1 and transfers its unrealized revaluation increment and cumulative translation differences to retained earnings, the entity has to appropriate the sum of the increment and the differences to special reserve. However, if the retained earnings arising from IFRSs adjustment at the first-time adoption is insufficient, special reserve should be appropriated at the same amount by which retained earnings increased as a result of the IFRSs adjustment. On the subsequent usage, disposal or reclassification of the related assets, the special reserve can be reversed proportionately.

The Company elected to reset the cumulative translation differences of NT$32,134 thousand (US$1,103 thousand) to zero and credited NT$32,134 thousand (US$1,103 thousand) to retained earnings. However, the Company's total IFRSs adjustments, at the first-time adoption of IFRSs, resulted in a decrease in retained earnings by NT$74,837 thousand (US$2,569 thousand). Thus, no special reserve was appropriated.

(5) 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 Statements 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 amend 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, although the amendment to IAS 39 that was issued by the IASB in 2009 has not yet been effected by the FSC, the Taiwan International Financial Reporting Standards ("TIFRS") is in compliance with the 2009 version of the IAS 39.

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 in 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 fair value through other comprehensive income ("FVTOCI") on initial recognition. If investments in equity instruments are classified as at 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.

6. OTHER MATTERS REQUIRING SUPPLEMENTARY EXPLANATION

The company should disclose the financial impact to the company if the company and its affiliated companies have incurred any financial or cash flow difficulties in 2012.

None.

HTC's Code of Conduct

HTC's Code of Conduct is a guideline to provide high ethical standards for all employees in conducting HTC business activities. All employees of HTC Corp., including branches and subsidiary companies, must follow these ethical standards regardless of the employees' position, grade level, and location. This Code includes three major sections: the General Moral Imperative, Vendors/Suppliers and Customers Relationship, and Conflict of Interests.

The General Moral Imperative section requires that HTC commits to providing a safe and healthy work environment and equal opportunities, and that it establishes a behavioral code for the treatment of knowledge about the company's assets/properties/ information.

The Vendors/Suppliers and Customer Relationship section requires that HTC commits to maintaining a fair, legal, and long-term relationship with its Vendors/suppliers and customers to the benefit of all parties.

The Conflict of Interest section describes the behavioral rules for employees in situations of divided interest.

This Code is superior to any other local regulations except certain mandatory laws/acts issued by the local government. In such cases, the Talent Management Division should submit the specific local laws/acts to Corporate Talent Management Division in order to waive this specific regulation of the Code in that location. Otherwise, any violation of HTC Code of Conduct and applicable policies may cause disciplinary action up to and including the termination of employment. The employees are responsible for understanding and complying with the HTC Code of Conduct, as well as other applicable HTC policies/rules. The manager must ensure that each employee endorses the contents of the Code of Conduct and should review this document with each employee periodically (at least once per year). Both parties should then sign in the appropriate space on the last page.

Mandatory Contents

1.0 General Moral Imperatives
While maintaining a work culture that ensures the company's success, HTC strives to treat each employee fairly and with dignity. HTC is also committed to complying with the labor laws of each country it operates in. As well, each employee is responsible for complying with all applicable external and internal laws.

1.1 Work Environments
HTC is committed to comply with local laws and regulations to establish a safe and healthy workplace, free from recognized hazards. Furthermore, HTC is thoroughly dedicated to providing employees with a workplace that is free of harassment (including sexual harassment) and discrimination. Any language or behavior of intention to cause hostilities or violations of this policy is strictly prohibited and shall be reported to a responsible authority immediately.

1.2 Corporate Confidentiality
During the term of employment with HTC and thereafter, each employee must hold in strict confidence and not disclose, directly or indirectly, any "Confidential Information" (as defined below) gained from HTC or its customers or Vendors/suppliers to any third party without the prior written consent of HTC. "Confidential Information" must be used only for the purpose of executing work for HTC. "Confidential Information" shall mean all business, technical, operational or other information that is not generally known to the public and that an employee develops, has access to, and becomes acquainted with during the term of employment, whether or not such information (A) is owned by HTC, HTC's customers, Vendors/suppliers, or any third party with which HTC desires to establish a business relationship with; (B) is in oral, written, drawn or electronic media form; (C) is subject matter for the application of patents, trademarks, copyrights, or other intellectual property rights; or (D) is labeled with "Confidential" or an equivalent word. Confidential information may include, but is not limited to the following:

(1) Business plans, manufacturing and marketing plans, procurement plans, product roadmaps, product design records, product test plans and reports, product software and source codes, product pricing, product appearance, product specifications, tooling specifications, personnel information, financial information, customer lists, Vendors/supplier lists, distributor lists, raw materials and product inventory information, all quality records, trade secrets, and other information related to the Company's business activities;
(2) Documents, databases, or other related materials to any computer programs or any development stages thereof;
(3) Discoveries, concepts, ideas, designs, sketches, engineering drawings, specifications, circuit layouts, circuit diagrams, mechanical drawings, flow charts, production processes, procedures, models, molds, samples, components, trouble shooting guides, chips and other know-how; and

(4) Proprietary information of any third party (such as customers or Vendors/suppliers) that the Company has a duty of confidentiality pursuant to contracts or required by any applicable laws.

1.3 Protection of Property, HTC's Assets, and Personal Information：

Copyrights, patents, trade marks/secrets, the terms of license agreements and any kind of intellectual property are under protection by related laws or regulations; violations are strictly prohibited. The Company's assets are not limited to physical equipment and facilities only, but also include technologies, trademarks, and other invisible concepts & confidential information. The utilization of company assets is for business matters and should be maintained, updated, and recorded properly and regularly. This is also applicable to the use of employee personal data. Those who are dealing with employee data shall consider the business matters and employees' privacy as well. The only exception that permits the revelation of employees' personal data is where such disclosure is required by government laws.

1.4 Equal Opportunity

HTC's Employment Policy is to comply with all applicable laws. Hiring decisions are based on HTC's business needs and the qualifications of applicants, and HTC strives to provide equal employment opportunities for all applicants and employees without regard to non-job-related factors, such as race, color, social class, language, religion, political affiliation, national origin, gender, sexual orientation, marital status, appearance, disability, previous union membership etc.

Everyone must be treated with dignity and respect. This principle applies to all areas of employment, including, but not limited to, recruitment, hiring, training, promotion, compensation, benefits, transfer, and social and recreational programs.

All employees should be responsible for the data accuracy and quality in any type of report in all aspects of their daily work. Any intention of misleading or incorrect data is not acceptable and may cause disciplinary action.

1.5 Political Activities

The Company encourages employees to participate in public activities as responsible citizens. However, HTC employees are prohibited from engaging in political activities on behalf of HTC. The Company is not allowed to donate or engage the political activities in most global operations. Therefore, employees must be aware of that their involvements are on an individual basis, and no contribution or donation to political candidates or parties can be made under the company name. Furthermore, employees must not organize or hold any speeches or activities connected to political activities on Company premises.

2.0 Vendors/Suppliers and Customers Relationship

It is a basic principle in Company business operations to maintain a good relationship with our Vendors/suppliers and customers.

2.1 Firm and Rational Attitude

In securing and negotiating business, all employees should attempt to establish long-term relationships with our customers and Vendors / suppliers by providing essential and accurate information about our products and services. Employees shall demonstrate their professionalism with a sincere, firm, and rational attitude while dealing with customers or Vendors/suppliers. Conflicts caused by emotional languages or behaviors are strictly prohibited.

2.2 Product Quality and Safety

The Company is committed to pursue excellence and maintain quality at all times. The Company strives to continuously improve the quality of products and service in compliance with the related safety regulations/laws in order to benefit our customers and Vendors/suppliers and achieve world-class competitiveness. To maintain HTC's valuable reputation and the benefits to our customers and Vendors/suppliers, all employees must comply with our quality processes and safety requirements.

2.3 Performance of Contracts

Company contracts must be executed not only in accordance with the requirements of each contract, but also in compliance with all the laws and regulations applicable to our business. Any unfair or unreasonable regulation or condition should be avoided. Purchasing decisions must be made in the best interests of HTC by considering the Vendors'/suppliers' suitability, quality, price, and delivery of products or services; any personal preferences are not allowed for special offers. Purchasing agreements/sales contracts and related evaluation information should be documented clearly and confidentially. The contract information of customers and Vendors/suppliers, including but not limited to their names, price, delivery condition, payment terms, are as confidential as Company documents. Every employee must protect this confidential information from misuse and disclosure.

2.4 Gifts, Entertainment and Business Courtesies

All employees or their immediately family members are not allowed to accept kickbacks, commissions, lavish gifts, or luxurious entertainment from customers, suppliers/Vendors, or anyone in a business relationship in any kind of situation. However, gifts of a nominal value of less than NT$1,500 or US$50 (maximum one time per outside company per year.), such as small promotional items bearing the company's name/logo or a tin of tea, are not prohibited. The acceptance or giving of a gift should be reported to and approved by local management. Employees may provide or accept meals or entertainment if these activities are legitimate, consistent with accepted business practices and demonstrably help to build a business relationship. However, regardless of the amount, employees are not allowed to accept or give kickbacks and bribes, such as (but not limited to) any type of gift, cash, stock, bond or its equivalent, or to participate in any business courtesy that may compromise the employees' judgment or motivate the employees to perform acts prohibited by laws/regulations or HTC policies. The meal expense between/ among colleagues can not be treated as entertainment. However, expenditures incurred for entertainment immediately before, during, or after a business meeting are acceptable, if those who will enjoy the entertainment are from another country or continent.

2.5 Business Travel

All employees are responsible for ensuring that their business travels are intended to further Company business interests, and the business travel and entertainment expenditures shall be reasonable, prudent, and in accordance with applicable Company policies. On behalf of the Company, employees should be aware that certain venues, whose entertainment nature or atmosphere may impact negatively on the Company's reputation, such as a sexually-oriented site or similar environment, are not appropriate for business-related meetings or activities. These venues are not acceptable even if the expenses incurred are not paid by the Company. If the common local custom is to engage in recreational activities (e.g. golf tournaments) for business purposes, then these activities should be minimized when possible in case of the expenses are not paid personally.

3.0 Conflict of Interest

All employees must avoid any activity that is or has the appearance of being hostile, adverse, or competitive with the Company, or that interfaces with the proper performance of their duties, responsibilities or loyalties to the Company.

3.1 Outside Employment

All employees are prohibited to work either part-time or full-time for or receive payments of services from any competitors, customers, Vendors/suppliers or subcontractors of HTC. If any employee is invited to serve as a lecturer, board member of an outside company, advisory board, committee or agency, he/she must get appropriate approval from the local top manager of Company in advance. Even if an invitation is not listed as above, permission from a top manager is required. In general, employees are not restricted from being members of the boards of charitable or community organizations. HTC also permits employees obtaining appropriate approval to serve as directors of an outside company that is invested in by HTC or is not a competitor or service provider of a competitor.

3.2 Inside Trading

All employees are not permitted, using their own names or the names of people with whom they have personal relationships, to engage in business ventures the same as or similar to HTC or to invest exceeding five percent of total market value in such a company. Employees are also prohibited from use so-called "Inside Information" to gain personal profit or to influence the independent judgment of business entities, such as investment in competitors, customers, Vendors/suppliers or subcontractors. "Inside Information" comprises facts that an employee knows, but people outside of HTC may not know, which might be in written form or discussed orally in a meeting. Inside information may also be information received from another company, such as from customers, suppliers or companies with which HTC has a joint research or development program. Therefore, employees may never use inside information to trade or influence the trading of stocks of HTC or other companies and should also not provide "tips" or share inside information with any other person who might trade stock. Insider trading violates company policies and may subject the employee to criminal penalties in accordance with the government' s regulations/laws.

HTC Corporation

Chairperson: Cher Wang

htc

quietly brilliant