HTC Corporation and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2013 and 2012 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of March 31, 2013 and 2012, December 31, 2012 and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2013 and 2012, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above of the Company as of March 31, 2013 and 2012, December 31, 2012 and January 1, 2012, and for the three months ended March 31, 2013 and 2012 for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, IFRS 1 - First-time Adoption of International Financial Reporting Standards and IAS 34 - Interim Financial Reporting approved by Financial Supervisory Commission.

May 10, 2013

Notice to Readers

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

For the convenience of readers, the accountants' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and consolidated financial statements shall prevail. Also, as stated in Note 4 to the consolidated financial statements, the additional footnote disclosures that are not required under accounting principles and practices generally applied in the Republic of China were not translated into English.

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

ASSETS	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 47,452,141	$ 50,966,143	$ 53,095,923	$ 62,026,758
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	228,702	6,950	-	256,868
Available-for-sale financial assets - current (Notes 4, 8 and 31)	-	37,902	737,392	736,031
Held-to-maturity financial assets - current (Notes 4, 9 and 31)	101,036	101,459	-	-
Derivative financial assets for hedging - current (Notes 4, 10 and 31)	-	204,519	-	-
Note and trade receivables, net (Notes 4, 13 and 32)	28,542,304	41,253,826	52,325,059	64,719,791
Other receivables (Note 13)	1,436,943	1,524,269	1,430,089	1,947,665
Other receivables - related parties (Notes 13 and 32)	6,788,707	6,600,093	-	966
Current tax assets (Note 4)	319,482	61,532	248,530	263,116
Inventories (Notes 4 and 14)	38,103,851	23,809,377	28,993,944	28,430,590
Prepayments (Note 15)	5,838,434	4,965,814	6,383,271	6,507,516
Other current financial assets (Notes 6, 12 and 33)	4,179,754	6,561,444	26,534,203	25,543,450
Other current assets	54,280	39,097	77,174	249,644
Total current assets	133,045,634	136,132,425	169,825,585	190,682,395
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4, 8 and 31)	173	197	186,856	279
Held-to-maturity financial assets - non-current (Notes 4, 9 and 31)	-	-	203,764	204,597
Financial assets measured at cost - non-current (Notes 4, 11 and 31)	4,444,000	4,304,907	3,472,035	3,408,654
Investments accounted for using the equity method (Notes 4 and 16)	5,316,819	5,892,168	316,145	71,732
Property, plant and equipment (Notes 4, 17 and 32)	25,840,345	25,990,766	22,689,799	21,715,633
Intangible assets (Notes 4 and 18)	11,677,252	11,683,170	22,139,555	22,767,479
Deferred tax assets (Note 4)	8,577,968	8,689,842	6,035,485	6,319,978
Refundable deposits	181,926	190,142	199,327	185,306
Long-term receivables (Notes 4 and 13)	4,479,375	4,369,350	-	-
Prepaid pension cost - non-current (Notes 4 and 22)	125,230	119,273	106,515	100,651
Other non-current assets (Note 15)	10,463,896	9,876,752	11,120,367	10,655,126
Total non-current assets	71,106,984	71,116,567	66,469,848	65,429,435
TOTAL	$ 204,152,618	$ 207,248,992	$ 236,295,433	$ 256,111,830

LIABILITIES AND EQUITY	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 31)	$ -	$ -	$ 210,837	$ -
Note and trade payables (Notes 19 and 32)	75,253,626	73,618,197	69,159,037	78,473,130
Other payables (Notes 4, 20 and 32)	35,168,299	39,267,173	37,095,747	47,595,791
Current tax liabilities (Note 4)	2,538,455	2,713,373	10,438,543	10,570,682
Provisions - current (Notes 4 and 21)	7,649,765	8,881,514	14,879,493	15,133,275
Other current liabilities (Note 20)	2,185,362	1,788,106	1,487,306	1,661,140
Total current liabilities	122,795,507	126,268,363	133,270,963	153,434,018
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 4)	365,047	647,936	449,233	340,261
Guarantee deposits received	53,136	59,999	43,014	42,946
Total non-current liabilities	418,183	707,935	492,247	383,207
Total liabilities	123,213,690	126,976,298	133,763,210	153,817,225
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 23)				
Share capital - common stock	8,520,521	8,520,521	8,520,521	8,520,521
Capital surplus				
Additional paid-in capital - issuance of shares in excess of par	14,809,608	14,809,608	14,809,608	14,809,608
Treasury stock transactions	1,730,458	1,730,458	1,730,458	1,730,458
Merger	24,423	24,423	24,423	24,423
Expired stock options	37,068	37,068	37,068	37,068
Total capital surplus	16,601,557	16,601,557	16,601,557	16,601,557
Retained earnings				
Legal reserve	16,471,254	16,471,254	10,273,674	10,273,674
Special reserve	-	-	580,856	580,856
Accumulated earnings	53,715,903	53,630,777	80,153,693	75,687,478
Total retained earnings	70,187,157	70,102,031	91,008,223	86,542,008
Other equity				
Accumulated balances of exchange differences on translating foreign operations (Note 4)	(302,729)	(1,089,693)	(696,264)	-
Unrealized gains or losses from available-for-sale financial assets (Note 4)	(2,088)	9,716	117,091	2,939
Effective portion of gain on hedging instruments in a cash flow hedge (Notes 4 and 10)	-	194,052	-	-
Total other equity	(304,817)	(885,925)	(579,173)	2,939
Treasury shares	(14,065,490)	(14,065,490)	(14,065,490)	(10,365,144)
Total equity attributable to owners of the parent	80,938,928	80,272,694	101,485,638	101,301,881
NON-CONTROLLING INTEREST	-	-	1,046,585	992,724
Total equity	80,938,928	80,272,694	102,532,223	102,294,605
TOTAL	$ 204,152,618	$ 207,248,992	$ 236,295,433	$ 256,111,830

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Three Months Ended March 31	
	2013	**2012**
REVENUES (Notes 4, 24 and 32)	$ 42,788,517	$ 67,789,581
COST OF REVENUES (Notes 4, 14, 25 and 32)	34,106,365	50,810,385
GROSS PROFIT	8,682,152	16,979,196
OPERATING EXPENSES (Notes 25 and 32)		
Selling and marketing	3,922,834	6,722,248
General and administrative	1,547,885	1,714,073
Research and development	3,168,075	3,422,309
Total operating expenses	8,638,794	11,858,630
OPERATING PROFIT	43,358	5,120,566
NON-OPERATING INCOME AND EXPENSES		
Other income (Notes 4 and 25)	258,308	255,217
Other gains and losses (Notes 4 and 25)	(242,554)	201,361
Finance costs	(48)	(320)
Share of the profit or loss of associates and joint ventures accounted for using the equity method (Notes 4 and 16)	43,681	(4,470)
Total non-operating income and expenses	59,387	451,788
PROFIT BEFORE INCOME TAX	102,745	5,572,354
INCOME TAX (Notes 4 and 26)	17,619	768,357
PROFIT FOR THE PERIOD	85,126	4,803,997
OTHER COMPREHENSIVE INCOME AND LOSS		
Exchange differences on translating foreign operations (Notes 4 and 23)	786,964	(696,264)
Unrealized valuation gains and losses from available-for-sale financial assets (Notes 4 and 23)	(11,804)	114,152
Effective portion of gains and losses on hedging instruments in a cash flow hedge (Notes 4, 10 and 23)	(194,052)	-
Other comprehensive income and loss for the period, net of income tax	581,108	(582,112)
TOTAL COMPREHENSIVE INCOME	$ 666,234	$ 4,221,885

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Three Months Ended March 31	
	2013	**2012**
ALLOCATIONS OF PROFIT OR LOSS FOR THE PERIOD ATTRIBUTABLE TO		
Owners of the parent	$ 85,126	$ 4,466,215
Non-controlling interest	-	337,782
	$ 85,126	$ 4,803,997
ALLOCATIONS OF TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO		
Owners of the parent	$ 666,234	$ 3,884,103
Non-controlling interest	-	337,782
	$ 666,234	$ 4,221,885
EARNINGS PER SHARE (Note 27)		
Basic earnings per share	$ 0.10	$ 5.35
Diluted earnings per share	$ 0.10	$ 5.35

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Parent: Share Capital Common Stock	Capital Surplus: Additional Paid-in Capital - Issuance of Shares in Excess of Par	Capital Surplus: Treasury Stock Transactions	Capital Surplus: Merger	Capital Surplus: Expired Stock Options	Retained Earnings: Legal Reserve	Retained Earnings: Special Reserve	Retained Earnings: Accumulated Earnings	Other Equity: Accumulated Balances of Exchange Differences on Translating Foreign Operations	Other Equity: Unrealized Gains or Losses From Available-for-sale Financial Assets	Other Equity: Effective Portion of Gain on Hedging Instruments in A Cash Flow Hedge	Treasury Shares	Total Equity Attributable to Owners of the Parent	Non-controlling Interest	Total Equity
BALANCE, JANUARY 1, 2012	$ 8,520,521	$ 14,809,608	$ 1,730,458	$ 24,423	$ 37,068	$ 10,273,674	$ 580,856	$ 75,687,478	$ -	$ 2,939	$ -	$ (10,365,144)	$ 101,301,881	$ 992,724	$ 102,294,605
Profit for the three months ended March 31, 2012	-	-	-	-	-	-	-	4,466,215	-	-	-	-	4,466,215	337,782	4,803,997
Other comprehensive income and loss for the three months ended March 31, 2012	-	-	-	-	-	-	-	-	(696,264)	114,152	-	-	(582,112)	-	(582,112)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	(3,700,346)	(3,700,346)	-	(3,700,346)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(283,921)	(283,921)
BALANCE, MARCH 31, 2012	$ 8,520,521	$ 14,809,608	$ 1,730,458	$ 24,423	$ 37,068	$ 10,273,674	$ 580,856	$ 80,153,693	$ (696,264)	$ 117,091	$ -	$ (14,065,490)	$ 101,485,638	$ 1,046,585	$ 102,532,223
BALANCE, JANUARY 1, 2013	$ 8,520,521	$ 14,809,608	$ 1,730,458	$ 24,423	$ 37,068	$ 16,471,254	$ -	$ 53,630,777	$ (1,089,693)	$ 9,716	$ 194,052	$ (14,065,490)	$ 80,272,694	$ -	$ 80,272,694
Profit for the three months ended March 31, 2013	-	-	-	-	-	-	-	85,126	-	-	-	-	85,126	-	85,126
Other comprehensive income and loss for the three months ended March 31, 2013	-	-	-	-	-	-	-	-	786,964	(11,804)	(194,052)	-	581,108	-	581,108
BALANCE, MARCH 31, 2013	$ 8,520,521	$ 14,809,608	$ 1,730,458	$ 24,423	$ 37,068	$ 16,471,254	$ -	$ 53,715,903	$ (302,729)	$ (2,088)	$ -	$ (14,065,490)	$ 80,938,928	$ -	$ 80,938,928

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Three Months Ended March 31	
	2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 102,745	$ 5,572,354
Adjustments for:		
Depreciation	694,689	542,213
Amortization	494,060	467,576
Impairment loss recognized on trade and other receivables	575,816	505,078
Finance costs	48	320
Interests income	(159,635)	(167,214)
Dividend income	(10,005)	(764)
Share of the profit or loss of associates and joint ventures accounted for using the equity method	(43,681)	4,470
Losses on disposal of property, plant and equipment	1,558	5
Gain on sale of investments	(29,735)	-
Impairment losses on non-financial assets	542,152	73,993
Net changes in operating assets and liabilities		
(Increase) decrease in financial assets classified as held for trading	(221,752)	467,705
Decrease in derivative financial instruments for hedging	204,519	-
Decrease in note and trade receivables	12,313,606	11,889,654
(Increase) decrease in other receivables	(63,616)	518,437
Decrease in other receivables - related parties	-	966
Increase in inventories	(14,494,140)	(637,347)
(Increase) decrease in prepayments	(1,382,330)	124,245
(Increase) decrease in other current assets	(15,183)	172,470
Increase in other non-current assets	(593,101)	(471,105)
Increase (decrease) in note and trade payables	1,635,429	(9,314,093)
Decrease in other payables	(3,677,970)	(10,459,136)
Decrease in provisions	(1,231,749)	(253,782)
Increase (decrease) in other current liabilities	397,256	(173,834)
Cash used in operations	(4,961,019)	(1,137,789)
Interest received	132,677	166,472
Interest paid	(48)	(320)
Income tax paid	(621,502)	(492,445)
Net cash used in operating activities	(5,449,892)	(1,464,082)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the sale of available-for-sale financial assets	56,738	-
Payments to acquire financial assets measured at cost	(48,382)	(209,546)
Net cash outflow on acquisition of subsidiaries	-	(55,252)
Payments for property, plant and equipment	(964,837)	(1,886,609)
Proceeds from disposal of property, plant and equipment	126,199	7,151
Increase in refundable deposits	-	(14,021)

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Three Months Ended March 31	
	2013	**2012**
Decrease in refundable deposits	$ 8,216	$ -
Payments for intangible assets	(127,150)	(25,624)
Increase in other current financial assets	-	(990,753)
Decrease in other current financial assets	2,381,690	-
Increase in prepayments for equipment in transit	(188,238)	(4,487)
Dividends received	655,619	764
Loss of a subsidiary	-	(501,425)
Net cash provided by (used in) investing activities	1,899,855	(3,679,802)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for treasury shares	-	(3,700,346)
Increase in guarantee deposits received	-	68
Refund of guarantee deposits	(6,863)	-
Change in non-controlling interest	-	(33,232)
Net cash used in financing activities	(6,863)	(3,733,510)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	42,898	(53,441)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,514,002)	(8,930,835)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	50,966,143	62,026,758
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 47,452,141	$ 53,095,923

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

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

HTC Corporation ("HTC") was incorporated on May 15, 1997 under the Company Law of the Republic of China to design, manufacture, assemble, process, and sell smart mobile 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.

The functional currency of HTC is New Taiwan dollars. The consolidated financial statements are presented in New Taiwan dollars since HTC is the parent of the Company.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on May 1, 2013.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

HTC and subsidiaries (collectively, the "Company"), have not applied the following new and revised IFRSs that have been issued by the International Accounting Statements Board ("IASB").

As of the date that the board of directors approved and authorized for issuing consolidated financial statements, new and revised standards, amendments or interpretations had not been effected by the Financial Supervisory Commission ("FSC") were as follows:

New and Revised Standards, Amendments or Interpretations		Effective Date by IASB (Note)
Approved by FSC		
Amendments to IFRSs	Improvements to 2009 IFRS, which Amends IAS 39	January 1, 2009 or January 1, 2010
IFRS 9	Financial Instruments	January 1, 2015
Amendments to IAS 39	Embedded Derivatives	Effective for a fiscal year ending on or after June 30, 2009

(Continued)

New and Revised Standards, Amendments or Interpretations		Effective Date by IASB (Note)
Not Approved by FSC		
Amendments to IFRSs	Improvements to 2010 IFRS, which Amends IAS 39	July 1, 2010 or January 1, 2011
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	July 1, 2010
Amendments to IFRS 1	Government Loans	January 1, 2013
Amendments to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	July 1, 2011
Amendments to IFRS 7	Disclosure - Offsetting Financial Assets and Financial Liabilities	January 1, 2013
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures	January 1, 2015
Amendments to IFRS 7	Disclosure - Transfer of Financial Assets	July 1, 2011
Amendments to IFRS 9	Financial Instruments	January 1, 2015
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	January 1, 2013
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities	January 1, 2014
IFRS 13	Fair Value Measurement	January 1, 2013
Amendments to IAS 1	Presentation of Other Comprehensive Income	July 1, 2012
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets	January 1, 2012
Amendments to IAS 19	Employee Benefits	January 1, 2013
Amendments to IAS 27	Separate Financial Statements	January 1, 2013
Amendments to IAS 28	Investments in Associates and Joint Ventures	January 1, 2013
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	January 1, 2014
IFRIC 20	Stripping Costs in Production Phase of a Surface Mine	January 1, 2013

(Concluded)

Note: The foregoing new and revised standards, amendments or interpretations will be implemented in accordance with the effective date except for additional note disclosure.

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

IFRS 9: Financial Instruments

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that 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 presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income 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.

The management anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

4. SIGNIFICANT ACCOUNTING POLICIES

On May 14, 2009, the FSC announced the “Framework for the Adoption of IFRSs by the Companies in the ROC.” In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange 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 IFRSs, International Accounting Standards, and the Interpretations approved by the FSC.

The consolidated financial statements of HTC and of all of its directly and indirectly controlled subsidiaries are the first interim IFRS financial statements for part of the period covered by its first annual financial statements, the consolidated financial statements for 2013. The date of transition to IFRSs was January 1, 2012. IFRS conversion impacts on consolidated financial statements please refer to Note 38.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities, IFRS 1 - First-time Adoption of International Financial Reporting Standards and IAS 34 - Interim Financial Reporting approved by FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The opening balance sheet as of the date of transition to IFRSs was prepared in accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards. The applicable IFRSs have been applied retrospectively by the Company except for some areas where IFRS prohibits retrospective application and specified areas where IFRS 1 grants limited exemptions (the exemptions of the Company please refer to Note 38) from the requirements of IFRSs.

For readers' convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. 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 accounting principles and practices generally applied in the Republic of China but are required by the Securities and Futures Bureau for their oversight purposes.

The significant principal accounting policies are set out as below.

Current/Non-current Assets and Liabilities

Current assets include those assets held primarily for trading purposes or to be realized within twelve months, cash and cash equivalents from the balance sheet date unless the asset is to be used for an exchange or to settle a liability, or otherwise remains restricted, at more than twelve months after the balance sheet date. Property, plant and equipment, intangible assets, other than assets classified as current are classified as non-current. Current liabilities are obligations incurred for trading purposes or to be settled within twelve months from the balance sheet date and an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Liabilities that are not classified as current are classified as non-current.

Basis of Consolidation

a. Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of HTC and entities controlled by HTC (its subsidiaries). Control is achieved where the parent company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Equity attributable to owners of the parent and non-controlling interests were presented separately.

<u>Attribution of total comprehensive income to non-controlling interests</u>

Total comprehensive income of subsidiaries is attributed to the owners of HTC and to the non-controlling interests.

Changes in the Company’s ownership interests in existing subsidiaries

Changes in the Company’s ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the parent.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate or a jointly controlled entity.

b. Subsidiary included in consolidated financial statements

The consolidated entities as of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012 were as follows:

			% of Ownership				
Investor	**Investee**	**Main Businesses**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**	**January 31, 2012**	**Remark**
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	100.00	100.00	100.00	100.00	-
	Communication Global Certification Inc.	Telecom testing and certification services	100.00	100.00	100.00	100.00	-
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	100.00	-
	HTC Investment Corporation	General investing activities	100.00	100.00	100.00	100.00	-
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales service	1.00	1.00	1.00	1.00	-
	HTC I Investment Corporation	General investing activities	100.00	100.00	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	1.00	1.00	1.00	1.00	-
	Huada Digital Corporation	Software service	50.00	50.00	50.00	50.00	1)
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	100.00	100.00	-
	FunStream Corporation	Design, research and development of three-D technology	100.00	100.00	100.00	-	2)
H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	100.00	-
	Exedea Inc.	Distribution and sales	-	-	100.00	100.00	3) -
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer (H.K.) Limited	Marketing, repair and after-sales service	100.00	100.00	100.00	100.00	-
	HTC (Australia and New Zealand) Pty. Ltd.	〃	100.00	100.00	100.00	100.00	-
	HTC Philippines Corporation	〃	99.99	99.99	99.99	99.99	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership March 31, 2013	December 31, 2012	March 31, 2012	January 31, 2012	Remark
	PT. High Tech Computer Indonesia	〃	99.00	99.00	99.00	99.00	-
	HTC (Thailand) Limited	〃	100.00	100.00	100.00	100.00	-
	HTC India Private Ltd.	〃	99.00	99.00	99.00	99.00	-
	HTC Malaysia Sdn. Bhd.	〃	100.00	100.00	100.00	100.00	-
	HTC Innovation Limited	〃	100.00	100.00	100.00	100.00	-
	HTC Communication Co., Ltd.	Sale of smart mobile devices	100.00	100.00	100.00	100.00	-
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	99.00	99.00	99.00	99.00	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	100.00	100.00	-
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	100.00	100.00	-	-	4)
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	100.00	100.00	-
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Repair and after-sales services	100.00	100.00	100.00	100.00	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	100.00	-
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	100.00	-
HTC Holding Cooperatief U.A.	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	1.00	1.00	-
	HTC South Eastern Europe Limited Liability Company	〃	0.67	0.67	0.67	0.67	-
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company Marketing, repair and after-sales services	100.00	100.00	100.00	100.00	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	99.99	99.99	-
	HTC Belgium BVBA/SPRL	〃	100.00	100.00	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	100.00	-
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	99.33	99.33	-
	HTC Nordic ApS.	〃	100.00	100.00	100.00	100.00	-
	HTC Italia SRL	〃	100.00	100.00	100.00	100.00	-
	HTC Germany GmbH	〃	100.00	100.00	100.00	100.00	-
	HTC Iberia, S.L.	〃	100.00	100.00	100.00	100.00	-
	HTC Poland sp. z.o.o.	〃	100.00	100.00	100.00	100.00	-
	Saffron Media Group Ltd.	International holding company, design, research and development of application software	100.00	100.00	100.00	100.00	-
	HTC Communication Canada, Ltd.	Marketing, repair and after-sales services	100.00	100.00	100.00	100.00	-
	HTC Norway AS	〃	100.00	100.00	100.00	100.00	-
	HTC RUS LLC	〃	100.00	100.00	100.00	100.00	-
	HTC Communication Sweden AB	〃	100.00	100.00	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership March 31, 2013	December 31, 2012	March 31, 2012	January 31, 2012	Remark
	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	100.00	100.00	-
	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	-	-	5)
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	100.00	100.00	-
HTC FRANCE CORPORATI-ON	ABAXIA SAS	International holding company, design, research and development of application software	100.00	100.00	100.00	100.00	-
HTC America Holding Inc.	HTC America Inc.	Sale of smart handheld devices	100.00	100.00	100.00	100.00	-
	One & Company Design, Inc.	Design, research and development of application software	100.00	100.00	100.00	100.00	-
	HTC America Innovation Inc.	〃	100.00	100.00	100.00	100.00	-
	HTC America Content Services, Inc.	Online/download media services	100.00	100.00	100.00	100.00	-
	Dashwire, Inc.	Design, research and development of wireless connectivity software	100.00	100.00	100.00	100.00	-
	Beats Electronics, LLC	Design, research and development of audio technology	-	-	50.14	50.14	6)
	Inquisitive Minds, Inc.	Development and sale of digital education platform	100.00	100.00	100.00	100.00	-
ABAXIA SAS	HTC BLR	Design, research and development of application software	100.00	100.00	100.00	100.00	-
Saffron Media Group Ltd.	Saffron Digital Ltd.	Design, research and development of application software	100.00	100.00	100.00	100.00	-
	Saffron Digital Inc.	〃	100.00	100.00	100.00	100.00	-

(Concluded)

Remark:

1) Huada Digital Corporation ("Huada") was incorporated in January 2010 and the Company changed in ownership percentage in October 2011. In March 2012, investment type change to joint venture and the Company lost significant influence.

2) In February 2012, the Company invested in FunStream Corporation shares.

3) Exedea Inc. was incorporated in December 2004, investment received in July 2005 and liquidated in December 2012.

4) Yoda Co., Ltd. was incorporated in September 2012.

5) HTC Middle East FZ-LLC was incorporated in September 2012.

6) The Company invested in Beats Electronics, LLC shares in October 2011 and 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.

c. Subsidiary not consolidated: None

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 and IAS 19, respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

a. Exchange differences on transactions entered into in order to hedge certain foreign currency risks (please refer to Note 4 "Hedge accounting" section); and

b. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

At 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 were recognized in profit and loss. The above exchange differences are recognized in other comprehensive income not in profit and loss, if the changes in fair value are recognized in other comprehensive income when transaction occurs.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of HTC are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income and accumulated in equity.

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.

Investments in Associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. In addition, the Company accounted for its interests in associate at a percentage of its ownership in the associate.

When the Company subscribes for its associate's newly issued shares at a percentage different from its pre-subscription percentage of ownership, the Company records the change in its equity in the associate's net assets as an adjustment to investments accounted for by the equity method, with a corresponding amount credited or charged to capital surplus. If the new subscription results in a decrease in the ownership interest, the related amount previously recognized in other comprehensive income in relation to that associate will be reclassified proportionably on the same basis as if the Company had directly disposed of the relevant assets. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Company losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate, the disposal proceeds and the fair value of retained investment is included in the determination of the gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company' consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

Interests in Joint Ventures

Jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activities of the entity.

The Company reports its interest in jointly controlled entities using equity method. The accounting treatment for jointly controlled entities is the same as investments in associates (please refer to Note 4 "Investments in associates" section).

Property, Plant and Equipment

Property, plant and equipment are tangible items that held for use in the production, supply of goods or services or rental, or for administrative purposes, and are expected to be used more than twelve months. The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the entity; and (b) the cost of the item can be measured reliably. After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis which is in accordance with IAS 8.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible Assets

<u>Intangible assets acquired separately</u>

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis which is in accordance with IAS 8. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

<u>Intangible assets acquired in a business combination</u>

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

a. Financial assets are classified into the following specified categories: Financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets ("AFS") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

1) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or

- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or

- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

If it forms part of a contract containing one or more embedded derivatives, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 31.

Investments in equity instruments that do not have a listed market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of each reporting period. The investment is recognized as "Financial assets carried at cost". The financial assets are measured at fair value if they can be carried at fair value subsequently. The difference between carrying amount and fair value is recognized in profit or loss on financial assets.

2) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Investments are classified as held-to-maturity if the Company invests corporate bonds with specific credit rating and has positive intent and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (i) loans and receivables, (ii) held-to-maturity investments or (iii) financial assets at FVTPL.

Fair value is determined in the manner described in Note 31.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

AFS equity investments that do not have a listed market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period. The investment is recognized as "Financial assets measured at cost". The financial assets are measured at fair value if they can be carried at fair value subsequently. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets.

4) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, investments in non-quoted securities, and other receivable) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

b. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or

- Breach of contract, such as a default or delinquency in interest or principal payments; or

- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

- The disappearance of an active market for that financial asset because of financial difficulties.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

c. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

a. Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method, (please refer to the stated above for the definition of effective interest method):

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

If it forms part of a contract containing one or more embedded derivatives, IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 31.

b. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

Hedge Accounting

The Company designates certain hedging instruments, which include derivatives in respect of foreign currency risk as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Note 31 sets out details of the fair values of the derivative instruments used for hedging purposes.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

a. 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.

b. 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.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- The amount of revenue can be measured reliably;

- It is probable that the economic benefits associated with the transaction will flow to the Company; and

- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

Sales of goods are recognized when goods are delivered and title has been passed.

Retirement Benefit Costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.’

Share-based Payment Arrangements

Share-based payment transactions of the Company

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company’s estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

   The tax currently payable is based on taxable profit for the year. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

   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.

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. At the end of each reporting period, an entity reassesses unrecognized deferred tax assets. The entity recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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.

Treasury Stock

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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, the management, is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a. Accrued marketing and advertising expenses

   The Company recognizes sale of goods as the conditions are met. For information on the principles of revenue recognition, please refer to Note 4 "revenue recognition" section. The related marketing and advertising expenses recognized as reduction of sales amount or as current expenses are estimated on the basis of agreement, past experience and any known factors. The Company reviews the reasonableness of the estimation periodically.

   As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the carrying amounts of accrued marketing and advertising expenses were NT$18,308,772 thousand, NT$20,872,536 thousand, NT$19,915,310 thousand and NT$29,104,665 thousand, respectively.

b. Allowances for doubtful debts

   Receivables 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 receivables, the estimated future cash flows of the asset have been affected.

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the carrying amounts of allowances for doubtful debts were NT$2,660,455 thousand, NT$2,086,085 thousand, NT$2,060,079 thousand, and NT$1,555,008 thousand, respectively.

c. Impairment of tangible and intangible assets other than goodwill

The Company measures the useful life of individual assets and the probable future economic benefits in a specific asset group, which depends on subjective judgment, asset characteristics and industry, during the impairment testing process. Any change in accounting estimates due to economic circumstances and business strategies might cause material impairment in the future.

The Company did not recognize any impairment loss on tangible and intangible assets other than goodwill for the three months ended March 31, 2013 and 2012, respectively.

d. Impairment of goodwill

Test of impairment on goodwill depends on the subjective judgment of management. The management uses subjective judgment to identify cash-generating units, allocates assets and liabilities to cash-generating units, allocates goodwill to cash-generating units, and determines recoverable amount of a cash-generating unit.

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the carrying amounts of goodwill were NT$1,187,839 thousand, NT$1,534,366 thousand, NT$5,281,049 thousand, and NT$10,812,564 thousand, after deduction of accumulated impairment losses of NT$489,053 thousand, NT$147,195 thousand, NT$90,958 thousand, and NT$93,314 thousand, respectively. The Company recognized an impairment loss on goodwill for NT$342,486 thousand for three months ended March 31, 2013.

e. Valuation of inventories

Inventories are measured at the lower of cost or net realizable value. Judgment and estimation are applied in the determination of net realizable value at the end of reporting period.

Inventories are usually written down to net realizable value item by item if those inventories are damaged, have become wholly or partially obsolete, or if their selling prices have declined.

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the carrying amounts of inventories were NT$38,103,851 thousand, NT$23,809,377 thousand, NT$28,993,944 thousand, and NT$28,430,590 thousand, respectively.

f. Realization of deferred tax assets

Deferred tax assets should be recognized only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available. The management applies judgment and accounting estimates to evaluate the realization of deferred tax assets. The management takes expected sales growth, profit rate, duration of exemption, tax credits, tax planning and etc. into account to make judgment and estimates. Any change in global economy, industry environment and regulations might cause material adjustments to deferred tax assets.

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the carrying amounts of deferred tax assets were NT$8,577,968 thousand, NT$8,689,842 thousand, NT$6,035,485 thousand, and NT$6,319,978 thousand, respectively.

g. Estimates of warranty provision

The Company estimates cost of product warranties at the time the revenue is recognized.

The estimates of warranty provision are on the basis of sold products and the amount of expenditure required for settlement of present obligation at the end of the reporting period.

The Company might recognize additional provisions because of the possible complex intellectual product malfunctions and the change of local regulations, articles and industry environment.

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the carrying amounts of warranty provision were NT$7,018,964 thousand, NT$8,058,509 thousand, NT$12,791,601 thousand, and NT$13,080,394 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Cash on hand	$ 1,789	$ 15,433	$ 18,861	$ 6,436
Checking accounts	3,445	12,134	5,751	9,709
Demand deposits	20,983,595	36,224,664	39,536,031	28,197,300
Time deposits (with original maturities less than three months)	26,463,312	14,713,912	13,535,280	33,813,313
	$ 47,452,141	$ 50,966,143	$ 53,095,923	$ 62,026,758

The range of market interest rates of cash in bank were as follows:

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Bank deposits	0.1%-0.95%	0.20%-1.05%	0.33%-0.885%	0.15%-1%

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the carrying amounts of time deposits with original maturities more than three months were NT$523,697 thousand, NT$2,915,624 thousand, NT$26,534,203 thousand, and NT$25,543,450 thousand, respectively, which were classified as other current financial assets (please refer to Notes 12 and 38).

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

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Financial assets held for trading				
Derivatives (not designated as hedging instruments)				
Exchange contracts	$ 228,702	$ 6,950	$ -	$ 256,868
Financial liabilities held for trading				
Derivatives (not designated as hedging instruments)				
Exchange contracts	$ -	$ -	$ 210,837	$ -

The Company entered into derivative transactions to manage exposures related to exchange rate fluctuations. Outstanding forward exchange contracts that did not meet the criteria for hedge accounting at the end of reporting period were as follows:

Forward Exchange Contracts

	Buy/Sell	Currency	Settlement Period/Date	Contract Amount (Units:	Thousand)
<u>March 31, 2013</u>					
Forward exchange contracts	Buy	RMB/USD	2013.04.24	RMB	186,633
Forward exchange contracts	Buy	USD/NTD	2013.04.02-2013.04.08	USD	20,000
Forward exchange contracts	Sell	CAD/USD	2013.04.03-2013.04.10	CAD	2,700
Forward exchange contracts	Sell	RMB/USD	2013.04.10-2013.04.24	RMB	892,981
Forward exchange contracts	Sell	EUR/USD	2013.04.10-2013.05.22	EUR	130,000
Forward exchange contracts	Sell	GBP/USD	2013.04.03-2013.04.24	GBP	21,500
Forward exchange contracts	Sell	JPY/USD	2013.04.03-2013.06.28	JPY	12,083,800
Forward exchange contracts	Sell	USD/NTD	2013.04.08-2013.05.08	USD	277,000
<u>December 31, 2012</u>					
Forward exchange contracts	Sell	EUR/USD	2013.01.11-2013.03.27	EUR	146,000
Forward exchange contracts	Sell	GBP/USD	2013.01.09-2013.03.20	GBP	20,700
Forward exchange contracts	Sell	USD/NTD	2013.01.17-2013.02.20	USD	70,000
Forward exchange contracts	Sell	USD/RMB	2013.01.09-2013.01.30	USD	78,000
Forward exchange contracts	Buy	USD/RMB	2013.01.09-2013.01.30	USD	106,000
Forward exchange contracts	Buy	USD/JPY	2013.01.09-2013.03.08	USD	97,437
Forward exchange contracts	Buy	USD/CAD	2013.01.09-2013.02.22	USD	22,158
Forward exchange contracts	Buy	USD/NTD	2013.01.07-2013.02.21	USD	270,000
<u>March 31, 2012</u>					
Forward exchange contracts	Sell	EUR/USD	2012.04.11-2012.05.30	EUR	307,000
Forward exchange contracts	Sell	GBP/USD	2012.04.11-2012.04.25	GBP	14,300
Forward exchange contracts	Sell	USD/NTD	2012.04.03-2012.04.20	USD	20,000
Forward exchange contracts	Buy	USD/RMB	2012.04.11-2012.05.16	USD	94,000
Forward exchange contracts	Buy	USD/JPY	2012.06.27	USD	1,816
<u>January 1, 2012</u>					
Forward exchange contracts	Buy	USD/CAD	2012.01.11-2012.02.22	USD	28,010
Forward exchange contracts	Buy	USD/RMB	2012.01.04-2012.01.31	USD	105,000
Forward exchange contracts	Sell	EUR/USD	2012.01.04-2012.03.30	EUR	339,000
Forward exchange contracts	Sell	GBP/USD	2012.01.11-2012.02.22	GBP	17,100

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Domestic investment				
Listed stocks	$ 173	$ 197	$ 324	$ 279
Mutual funds	-	-	737,392	736,031
	173	197	737,716	736,310
Foreign investment				
Listed depositary receipts	-	37,902	186,532	-
	$ 173	$ 38,099	$ 924,248	$ 736,310
Current	$ -	$ 37,902	$ 737,392	$ 736,031
Non-current	173	197	186,856	279
	$ 173	$ 38,099	$ 924,248	$ 736,310

9. HELD-TO-MATURITY FINANCIAL ASSETS

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Domestic investment				
Bonds	$ 101,036	$ 101,459	$ 203,764	$ 204,597
Current	$ 101,036	$ 101,459	$ -	$ -
Non-current	-	-	203,764	204,597
	$ 101,036	$ 101,459	$ 203,764	$ 204,597

10. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Hedging derivative assets				
Cash flow hedge - forward exchange contracts	$ -	$ 204,519	$ -	$ -

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 terms of forward exchange contract were negotiated on the basis of the terms of hedged items. The forward foreign currency contracts outstanding at the end of the reporting period were as follows:

	Buy/Sell	Currency	Settlement Period/Date	Contract Amount (Units: Thousand)
December 31, 2012				
Forward exchange contracts	Buy	USD/JPY	2013.03.28	US$95,356

The Company has entered into forward foreign exchange contracts for anticipated future transactions to supply products to customers in Japan to hedge the exchange rate risk. The forward foreign exchange contracts are designated as cash flow hedges.

Cumulative gain recognized on changes in fair value of hedging instruments transferred from equity into profit or loss during the period was included in the following items:

	Three Months Ended March 31	
	2013	2012
Revenues	$ 258,327	$ -
Other gains and losses	151,197	-
	$ 409,524	$ -

11. FINANCIAL ASSETS MEASURED AT COST

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Domestic unlisted equity investment	$ 698,861	$ 698,861	$ 698,861	$ 698,861
Foreign unlisted equity investment	1,826,137	1,781,514	1,940,051	2,065,876
Foreign unlisted mutual funds	1,919,002	1,824,532	833,123	643,917
	$ 4,444,000	$ 4,304,907	$ 3,472,035	$ 3,408,654
The classification of financial assets				
Available-for-sale financial assets	$ 4,444,000	$ 4,304,907	$ 3,472,035	$ 3,408,654

The Company's unlisted equity investments and mutual funds were measured at cost less accumulated impairment losses at the end of reporting period. The fair values of these investments cannot be measured reliably because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

12. OTHER CURRENT FINANCIAL ASSETS

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Trust assets for employee benefit	$ 3,656,057	$ 3,645,820	$ -	$ -
Time deposits with original maturities more than three months	523,697	2,915,624	26,534,203	25,543,450
	$ 4,179,754	$ 6,561,444	$ 26,534,203	$ 25,543,450

To protect the rights and interests of its employees, the Company deposited unpaid employee bonus in a new trust account in September 2012 and were classified as other current financial assets.

The range of market interest rates of time deposits with original maturities more than three months were as follows:

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Time deposits with original maturities more than three months	0.40%-3.08%	0.39%-3.30%	0.39%-3.30%	0.39%-3.30%

For details of pledged other current financial assets, please refer to Note 33.

13. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Note and trade receivables				
Note receivables	$ -	$ -	$ -	$ 755,450
Trade receivables	31,000,374	43,118,861	53,056,732	65,518,876
Trade receivables - related parties	24,485	221,050	1,328,406	473
Less: Allowances for doubtful debts	(2,482,555)	(2,086,085)	(2,060,079)	(1,555,008)
	$ 28,542,304	$ 41,253,826	$ 52,325,059	$ 64,719,791
Other receivables				
Loan receivables - fluctuation rate	$ 6,719,063	$ 6,554,025	$ -	$ -
Receivables from disposal of investments	4,479,375	4,369,350	-	-
VAT refund receivables	478,781	391,276	548,250	792,364
Interest receivables	81,093	54,135	24,003	23,261
Others	1,124,613	1,124,926	857,836	1,133,006
Less: Allowances for doubtful debts	(177,900)	-	-	-
	$ 12,705,025	$ 12,493,712	$ 1,430,089	$ 1,948,631

(Continued)

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Current - other receivables	$ 8,225,650	$ 8,124,362	$ 1,430,089	$ 1,948,631
Non-current - other receivables	4,479,375	4,369,350	-	-
	$ 12,705,025	$ 12,493,712	$ 1,430,089	$ 1,948,631

(Concluded)

Trade Receivables

The credit period on sales of goods is 30-75 days. No interest is charged on trade receivables before the due date. Thereafter, interest is charged at 1-18% per annum on the outstanding balance, which is considered to be non-controversial, to some of customers. The Company assesses the probability of collections of trade receivables by examining the aging analysis of the outstanding receivables and assessing the credit quality. For customers with low credit risk, the Company has recognized an allowance for doubtful debts of 1-5% against receivables past due beyond 31-90 days and of 5-100% against receivables past due beyond 91 days. For customers with high credit risk, the Company has recognized an allowance for doubtful debts of 10-100% against receivables past due more than 31 days.

Before accepting any new customer, the Company's Department of Financial and Accounting evaluates the potential customer's credit quality and defines credit limits and scorings by customer. The factor of overdue attributed to customers are reviewed once a week and the Company evaluates the financial performance periodically for the adjustment of credit limits.

The concentration of credit risk is limited due to the fact that the customer base is diverse.

As of the reporting date, the Company had no receivables that are past due but not impaired.

Age of impaired trade receivables

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
1-90 days	$ 5,518,505	$ 7,700,143	$ 8,450,027	$ 15,528,464
91-180 days	223,684	1,092,164	3,106,870	1,994,283
Over 181 days	920	5,651	152,504	74,014
	$ 5,743,109	$ 8,797,958	$ 11,709,401	$ 17,596,761

The age of impaired trade receivables is based on the past due dates and the amount is net value of trade receivables.

Movement in the allowances for doubtful debts

	Three Months Ended March 31	
	2013	2012
Balance, beginning of period	$ 2,086,085	$ 1,555,008
Impairment losses recognized on receivables	397,916	505,078
Amounts written off during the period	(13,943)	-
Translation adjustment	12,497	(7)
Balance, end of period	$ 2,482,555	$ 2,060,079

Other Receivables

Loan receivables - fluctuation rate is the short-term loan to Beats Electronics, LLC. For more details, please refer to Note 32. As of March 31, 2013 and December 31, 2012, loan and interest receivable amounted to NT$6,788,707 thousand and NT$6,600,093 thousand, respectively.

Receivable from disposal of investments is the amount of sale shares of Beats Electronics, LLC. For more details, please refer to Note 29.

Others were primarily prepayments on behalf of vendors or customers and withholding income tax of employees' bonuses.

14. INVENTORIES

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Finished goods	$ 1,949,161	$ 3,310,521	$ 2,659,048	$ 2,189,984
Work-in-process	1,669,926	1,902,733	5,670,613	4,320,763
Semi-finished goods	9,083,583	5,635,374	4,455,388	4,547,374
Raw materials	25,162,262	12,663,961	15,898,949	17,251,140
Inventory in transit	238,919	296,788	309,946	121,329
	$ 38,103,851	$ 23,809,377	$ 28,993,944	$ 28,430,590

The losses on inventories decline amounting to NT$199,666 thousand and NT$73,993 thousand were recognized as cost of revenues for the three month ended March 31, 2013 and 2012, respectively.

15. PREPAYMENTS

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Royalty	$ 10,696,896	$ 9,936,609	$ 12,878,411	$ 12,521,985
Prepayments to suppliers	3,034,849	2,976,231	3,257,332	3,256,082
Net input VAT	1,467,344	434,521	253,509	320,544
Prepaid equipment	420,249	232,011	211,548	207,061
Software and hardware maintenance	157,291	716,695	432,633	311,416
Land use right	134,371	134,074	136,058	139,707
Service	114,447	171,440	108,981	55,192
Others	276,883	240,985	225,166	350,655
	$ 16,302,330	$ 14,842,566	$ 17,503,638	$ 17,162,642
Current	$ 5,838,434	$ 4,965,814	$ 6,383,271	$ 6,507,516
Non-current	10,463,896	9,876,752	11,120,367	10,655,126
	$ 16,302,330	$ 14,842,566	$ 17,503,638	$ 17,162,642

Prepayments for royalty were primarily for getting royalty right and were classified as current or non-current in accordance with their nature. For details of content of contracts, please refer to Note 36.

Prepayments to suppliers were primarily for discount purposes and were classified as current or non-current in accordance with their nature.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Investment in associates	$ 5,078,705	$ 5,650,859	$ 65,367	$ 71,732
Investment in jointly controlled entities	238,114	241,309	250,778	-
	$ 5,316,819	$ 5,892,168	$ 316,145	$ 71,732

Investments in Associates

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Unlisted equity investments				
Beats Electronics, LLC	$ 5,078,705	$ 5,650,859	$ -	$ -
SYNCTV Corporation	-	-	65,367	71,732
	$ 5,078,705	$ 5,650,859	$ 65,367	$ 71,732

The percentage of ownership and voting rights held by the Company at the end of reporting period were as follows:

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Beats Electronics, LLC				
Ownership	25.14%	25.14%	50.14%	50.14%
Voting right	25.57%	25.57%	51.00%	51.00%
SYNCTV Corporation	20.00%	20.00%	20.00%	20.00%

In September 2011, the Company acquired 20% equity interest in SYNCTV Corporation for US$2,500 thousand and accounted for this investment by the equity method. In December 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.

In October 2011, the Company acquired 50.14% equity interest in Beats Electronics, LLC. for US$300,000 thousand. In July 2012, the Company sold back 25% of Beats Electronics, LLC shares to the founding members of Beats Electronics, LLC for US$150,000 thousand. For details of transaction, please refer to Note 29. After the transaction, the Company remained 25.14% of the shareholdings in Beats Electronics, LLC and accounted for this investment by the equity method.

The unrecognized current and accumulated amounts of share of losses on the associates were as follows:

	Three Months Ended March 31	
	2013	2012
Unrecognized share of losses of associates		
Current amount	$ 2,643	$ -
Accumulated amount	$ 6,249	$ -

Investments accounted for using the equity method and the share of net income or loss and other comprehensive income from investments are accounted for based on the unreviewed financial statements of SYNCTV Corporation and reviewed financial statements of Beats Electronics, LLC. For three months ended March 31, 2013 and 2012, the Company recognizes the share of the net income and loss of SYNCTV Corporation for NT$0 thousand and a loss of NT$4,559 thousand, respectively and of Beats Electronics, LLC for a gain of NT$46,876 thousand and NT$0 thousand, respectively. The Company's management considers the use of unreviewed financial statements of the investee did not have material impact on its consolidated financial statements.

Jointly Controlled Entity

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Unlisted equity investments				
Huada Digital Corporation	$ 238,114	$ 241,309	$ 250,778	$ -

The percentage of ownership and voting rights held by the Company at the end of reporting period were as follows:

Company Name	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Huada Digital Corporation	50.00%	50.00%	50.00%	50.00%

In December 2009, the Company acquired 100% equity interest in 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. 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, 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 continued to account for this investment by the equity method.

The investments accounted for using the equity method and the share of net income and other comprehensive income from investments are accounted for based on unreviewed financial statements. For three months ended March 31, 2013 and 2012, the Company recognizes the share of the net income and loss of Huada for a loss of NT$3,195 thousand and a gain of NT$89 thousand, respectively. The Company's management considers the use of unreviewed financial statements of Huada did not have material impact on its consolidated financial statements.

17. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Carrying amounts				
Land	$ 7,609,913	$ 7,615,546	$ 7,616,056	$ 7,614,167
Buildings	11,081,903	11,086,713	5,389,319	5,401,104
Construction in progress	1,178	-	2,905,640	1,923,876
Machinery and equipment	6,234,451	6,327,723	5,859,903	5,907,321
Other equipment	912,900	960,784	918,881	869,165
	$ 25,840,345	$ 25,990,766	$ 22,689,799	$ 21,715,633

Movement of property, plant and equipment for the three months ended March 31, 2013 and 2012 were as follows:

	2013					
	Land	Buildings	Construction in Progress	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of period	$ 7,615,546	$ 12,683,285	$ -	$ 13,310,647	$ 1,956,423	$ 35,565,901
Additions	-	144,243	1,178	265,282	146,401	557,104
Disposal	-	(5,995)	-	(127,278)	(234,113)	(367,386)
Translation adjustment	(5,633)	54,034	-	106,312	14,474	169,187
Balance, end of period	7,609,913	12,875,567	1,178	13,554,963	1,883,185	35,924,806
Accumulated depreciation						
Balance, beginning of period	-	1,596,572	-	6,982,924	995,639	9,575,135
Depreciation expenses	-	192,079	-	435,447	67,163	694,689
Disposal	-	(5,995)	-	(136,766)	(96,868)	(239,629)
Translation adjustment	-	11,008	-	38,907	4,351	54,266
Balance, end of period	-	1,793,664	-	7,320,512	970,285	10,084,461
Net book value, end of period	$ 7,609,913	$ 11,081,903	$ 1,178	$ 6,234,451	$ 912,900	$ 25,840,345

	2012					
	Land	Buildings	Construction in Progress	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of period	$ 7,614,167	$ 6,476,801	$ 1,923,876	$ 11,470,702	$ 1,611,225	$ 29,096,771
Additions	208	116,036	981,764	381,603	158,869	1,638,480
Disposal	-	(421)	-	(173,013)	(8,739)	(182,173)
Transfer to expense	-	-	-	-	(4,630)	(4,630)
Translation adjustment	1,681	(40,293)	-	(76,892)	(17,929)	(133,433)
Balance, end of period	7,616,056	6,552,123	2,905,640	11,602,400	1,738,796	30,415,015
Accumulated depreciation						
Balance, beginning of period	-	1,075,697	-	5,563,381	742,060	7,381,138
Depreciation expenses	-	90,083	-	368,907	83,223	542,213
Disposal	-	(421)	-	(172,745)	(1,851)	(175,017)
Translation adjustment	-	(2,555)	-	(17,046)	(3,517)	(23,118)
Balance, end of period	-	1,162,804	-	5,742,497	819,915	7,725,216
Net book value, end of period	$ 7,616,056	$ 5,389,319	$ 2,905,640	$ 5,859,903	$ 918,881	$ 22,689,799

The following useful lives are used in the calculation of depreciation under straight-line method.

Building	5-50 years
Machinery and equipment	5 years
Other equipment	3-5 years

The Company's buildings included plants, mechanical and electrical power equipment, and engineering systems, which are depreciated over their estimated useful lives of 40 to 50 years, 20 years and 5 to 10 years, respectively.

There were no interests capitalized for the three months ended March 31, 2013 and 2012.

18. INTANGIBLE ASSETS

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Carrying amounts				
Patents	$ 8,988,041	$ 9,180,674	$ 10,578,257	$ 11,152,098
Goodwill	1,187,839	1,534,366	5,281,049	10,812,564
Other intangible assets	1,501,372	968,130	6,280,249	802,817
	$ 11,677,252	$ 11,683,170	$ 22,139,555	$ 22,767,479

Movements of intangible assets for the three months ended March 31, 2013 and 2012 were as follows:

	2013			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of period	$ 11,239,554	$ 1,681,561	$ 1,603,108	$ 14,524,223
Additions				
Acquisition	22,213	-	104,937	127,150
Transfer from prepayment	-	-	509,710	509,710
Disposal	-	-	(17,027)	(17,027)
Adjustment in acquisition of a subsidiary	-	(13,979)	-	(13,979)
Translation adjustment	220,050	9,310	12,387	241,747
Balance, end of period	11,481,817	1,676,892	2,213,115	15,371,824
Accumulated amortization				
Balance, beginning of period	2,058,880	-	634,978	2,693,858
Amortization expenses	402,049	-	92,011	494,060
Disposal	-	-	(17,027)	(17,027)
Translation adjustment	32,847	-	1,781	34,628
Balance, end of period	2,493,776	-	711,743	3,205,519
Accumulated impairment				
Balance, beginning of period	-	147,195	-	147,195
Impairment losses	-	342,486	-	342,486
Translation adjustment	-	(628)	-	(628)
Balance, end of period	-	489,053	-	489,053
Net book value, end of period	$ 8,988,041	$ 1,187,839	$ 1,501,372	$ 11,677,252

	2012			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of period	$ 11,608,540	$ 10,905,878	$ 1,203,368	$ 23,717,786
Additions				
Acquisition	-	-	25,624	25,624
Difference between the cost of investments and the Company's share in investees' net assets	-	286,965	-	286,965
Disposal	-	-	(16,679)	(16,679)
Reclassification	-	(5,717,960)	5,717,960	-
Translation adjustment	(230,313)	(102,876)	(144,399)	(477,588)
Balance, end of period	11,378,227	5,372,007	6,785,874	23,536,108
Accumulated amortization				
Balance, beginning of period	456,442	-	400,551	856,993
Amortization expenses	346,932	-	120,644	467,576
Disposal	-	-	(16,679)	(16,679)
Translation adjustment	(3,404)	-	1,109	(2,295)
Balance, end of period	799,970	-	505,625	1,305,595
Accumulated impairment				
Balance, beginning of period	-	93,314	-	93,314
Impairment losses	-	-	-	-
Translation adjustment	-	(2,356)	-	(2,356)
Balance, end of period	-	90,958	-	90,958
Net book value, end of period	$ 10,578,257	$ 5,281,049	$ 6,280,249	$ 22,139,555

The Company owns patents of graphics technologies. As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the carrying amounts of such patents were NT$7,465,625 thousand, NT$7,555,334 thousand, NT$8,559,205 thousand and NT$9,008,002 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

Some of other intangible assets will not be amortized before their useful lives are determined. These intangible assets will be tested for impairment annually together with goodwill impairment testing, whether indication of impairment exists.

19. NOTE AND TRADE PAYABLES

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Note payables	$ 48	$ 294	$ 1,242	3,779
Trade payables	75,245,134	73,598,634	69,157,795	78,469,351
Trade payables - related parties	8,444	19,269	-	-
	$ 75,253,626	$ 73,618,197	$ 69,159,037	$ 78,473,130

The average term of payment are four months. All payables will be paid before due date to meet the financial risk management policy.

20. OTHER LIABILITIES

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Other payables				
Accrued expenses	$ 33,793,001	$ 37,469,944	$ 35,693,475	$ 46,270,611
Payables for purchase of equipment	1,063,796	1,471,529	564,111	812,240
Others	311,502	325,700	838,161	512,940
	$ 35,168,299	$ 39,267,173	$ 37,095,747	$ 47,595,791
Other current liabilities				
Advance receipts	$ 753,349	$ 637,657	$ 441,313	$ 574,596
Agency receipts	559,098	301,868	334,966	440,862
Others	872,915	848,581	711,027	645,682
	$ 2,185,362	$ 1,788,106	$ 1,487,306	$ 1,661,140

Accrued Expenses

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Marketing	$ 18,308,772	$ 20,872,536	$ 19,915,310	$ 29,104,665
Bonus to employees	5,716,770	5,712,075	7,688,168	7,238,637
Salaries and bonuses	5,054,283	5,712,741	3,117,354	3,532,970
Services	1,522,495	1,020,609	1,260,097	1,324,631
Materials and molding expenses	996,561	1,904,181	1,831,217	1,854,932
Import, export and freight	609,163	644,432	756,251	1,397,747
Repairs, maintenance and sundry purchase	408,658	573,355	150,311	466,135
Others	1,176,299	1,030,015	974,767	1,350,894
	$ 33,793,001	$ 37,469,944	$ 35,693,475	$ 46,270,611

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

Other Payables - Others

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

21. PROVISIONS

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Warranty provision	$ 7,018,964	$ 8,058,509	$ 12,791,601	$ 13,080,394
Provisions for contingent loss on purchase orders	630,801	823,005	2,087,892	2,052,881
	$ 7,649,765	$ 8,881,514	$ 14,879,493	$ 15,133,275

Movement of provisions for the three months ended March 31, 2013 and 2012 were as follows:

	2013		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of period	$ 8,058,509	$ 823,005	$ 8,881,514
Provisions recognized	2,018,068	-	2,018,068
Change of estimates	-	(115,049)	(115,049)
Amount utilized during the period	(3,162,166)	(77,155)	(3,239,321)
Translation adjustment	104,553	-	104,553
Balance, end of period	$ 7,018,964	$ 630,801	$ 7,649,765

	2012		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of period	$ 13,080,394	$ 2,052,881	$ 15,133,275
Provisions recognized	2,726,099	45,398	2,771,497
Amount utilized during the period	(2,819,428)	(10,387)	(2,829,815)
Translation adjustment	(195,464)	-	(195,464)
Balance, end of period	$ 12,791,601	$ 2,087,892	$ 14,879,493

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.

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.

22. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

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.

The Company has defined contribution retirement benefit plans for all qualified employees of HTC and CGC in Taiwan. Besides, the employees of the Company's subsidiary are members of a state-managed retirement benefit plan operated by local government. The subsidiary is required to contribute amounts calculated at a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit plan is to make the specified contributions to the fund.

The total expenses recognized in the consolidated statement of comprehensive income were NT$173,749 thousand and NT$166,293 thousand, representing the contributions payable to these plans by the Company at the rates specified in the plans for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the amounts of contributions payable were NT$106,199 thousand, NT$119,833 thousand, NT$132,322 thousand and NT$123,877 thousand, respectively, representing contributions not yet paid for the reporting period. The amounts were paid subsequent to the end of the reporting period.

Defined Benefit Plans

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 Bank of Taiwan in the committee's name.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2012 by Mr. George Yeh, Fellow of the Institute of Actuaries of the Republic of China. The present value of the defined benefit obligation and the related current service cost and past service cost, were measured using the Projected Unit Credit method. The pension cost for three months ended March 31, 2013 and 2012 were determined in the proportion to the pension cost included in the actuarial report on December 31, 2012 and January 1, 2012, respectively.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31, 2012	January 1, 2012
Discount rates	1.250%-1.625%	1.500%-1.750%
Expected return on plan assets	1.875%	2.000%
Expected rates of salary increase	2.250%-4.000%	2.250%-4.000%

Amounts recognized in profit or loss in respect of these defined benefit plans were as follows:

	Three Months Ended March 31	
	2013	2012
Operating cost	$ 105	$ 179
Selling and marketing	$ 21	$ 49
General and administrative	$ 47	$ 56
Research and development	$ 152	$ 308

The amounts included in the consolidated balance sheets in respect of the obligation on HTC and CGC under the defined benefit plans were as follows:

	December 31, 2012	January 1, 2012
Present value of funded defined benefit obligation	$ (394,681)	$ (382,134)
Fair value of plan assets	513,954	482,785
Defined benefit assets	$ 119,273	$ 100,651

The percentage for each major categories of plan assets at December 31, 2012 and January 1, 2012 were as follows:

	December 31, 2012	January 1, 2012
Equity instruments	38.29%	41.26%
Debt instruments	37.58%	35.98%
Others	24.13%	22.76%
	100.00%	100.00%

The expected overall rate of return is the weighted average of the expected returns of the various categories of plan assets held. The Actuary's assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation, after taking into account the minimum return rate which no lower than the interest rate for 2-years' time deposit.

The Company expects to make a contribution of NT$26,459 thousand to the defined benefit pension plan within one year from March 31, 2013.

23. EQUITY

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Share capital - common stock	$ 8,520,521	$ 8,520,521	$ 8,520,521	$ 8,520,521
Capital surplus	16,601,557	16,601,557	16,601,557	16,601,557
Retained earnings	70,187,157	70,102,031	91,008,223	86,542,008
Other equity	(304,817)	(885,925)	(579,173)	2,939
Treasury shares	(14,065,490)	(14,065,490)	(14,065,490)	(10,365,144)
Non-controlling interest	-	-	1,046,585	992,724
	$ 80,938,928	$ 80,272,694	$ 102,532,223	$ 102,294,605

Share Capital

a. Common stock

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Authorized shares (in thousands of shares)	1,000,000	1,000,000	1,000,000	1,000,000
Authorized capital	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ 10,000,000
Issued and fully paid shares (in thousands of shares)	852,052	852,052	852,052	852,052
Issued capital	$ 8,520,521	$ 8,520,521	$ 8,520,521	$ 8,520,521
Share premium	14,809,608	14,809,608	14,809,608	14,809,608
	$ 23,330,129	$ 23,330,129	$ 23,330,129	$ 23,330,129

The par value of outstanding common stocks is NT$10 per share. Every common stock carries one vote per share and a right to dividends.

The reserved shares for the conversion of convertible bonds and the exercise of employee share options within authorized but unissued shares are 30,000 thousands shares and 16,000 thousands shares, respectively.

b. 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 8,782.1 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 March 31, 2013, there were 8,516.1 thousand units of GDRs redeemed, representing 34,064.5 thousand common shares, and the outstanding GDRs represented 1,996 thousand common shares or 0.24% of HTC’s common shares.

Capital Surplus

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Additional paid-in capital - issuance of shares in excess of par	$ 14,809,608	$ 14,809,608	$ 14,809,608	$ 14,809,608
Treasury stock	1,730,458	1,730,458	1,730,458	1,730,458
Merger	24,423	24,423	24,423	24,423
Expired stock options	37,068	37,068	37,068	37,068
	$ 16,601,557	$ 16,601,557	$ 16,601,557	$ 16,601,557

The capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, treasury stock transactions, merger and expired stock options) and the income from endowments may be used to offset a deficit and appropriate cash dividend or capitalized once a year within a certain percentage of a company's paid-in capital where the Company incurs no loss.

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.

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 employee bonus for 2013 and 2012 should be appropriated at 5% and 8.4%, 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.

HTC shall comply with ruling I-0890100116 issued by Securities and Futures Bureau of the FSC and ruling I-0950000507 issued by the FSC under the Executive Yuan in the appropriation of retained earnings generated before 2012. The Company appropriated the net reduction in other stockholders' equity into special capital reserve. The reduced amount of special capital reserve can be reversed back into retained earnings if stockholders' equity increases in subsequent period.

Under Rule No. 1010012865 issued by the FSC on April 6, 2012 and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", on the first-time adoption of IFRSs, a company should appropriate to a special reserve of an amount that was the same as these of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the company's use of exemptions under IFRS 1. The Company had a decrease in retained earnings that resulted from all IFRSs adjustments; therefore, no special reserve was appropriated.

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.

The appropriations of 2012 earnings are scheduled for approval in the board of directors' meeting on May 1, 2013. The appropriations of 2011 earnings were approved in the stockholders' meeting on June 12, 2012. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For 2012	**For 2011**	**For 2012**	**For 2011**
Legal reserve	$ 1,678,097	$ 6,197,580	$ -	$ -
Special reserve (reversal)	854,138	(580,856)	-	-
Cash dividends	1,662,454	33,249,085	2	40
Stock dividends	-	-	-	-

The bonus to employees for 2012 is scheduled for approval in the board of directors' meeting on May 1, 2013. The bonus to employees for 2011 was approved in the stockholders' meeting on June 12, 2012. The amounts of bonus were as follows:

		Amounts Approved in Board Meetings	Amounts Recognized in Financial Statements
For 2012	Cash	$ 976,327	
	Stock	-	
		$ 976,327	$ 976,327

The approved amounts of bonus to employees were the same as the accrual amounts reflected in the financial statements for 2012.

		Amounts Approved in Board Meetings	Amounts Recognized in Financial Statements
For 2011	Cash	$ 7,238,637	
	Stock	-	
		$ 7,238,637	$ 7,238,637

The approved amounts of bonus to employees were the same as the accrual amounts reflected in the financial statements for 2011.

In 2012, HTC's board of directors proposed the appropriation of earnings and bonus to employees based on the 2012 financial statements prepared in conformity with the pre-amended Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China; however, the balance sheet as of December 31, 2012, after being retrospectively adjusted in conformity with the amended Guidelines Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, was also being taken into account while the determination of the appropriation of earnings and bonus to employees.

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.

Other Equity

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Accumulated balances of exchange differences on translating foreign operations	$ (302,729)	$ (1,089,693)	$ (696,264)	$ -
Unrealized gains or losses from available-for-sale financial assets	(2,088)	9,716	117,091	2,939
Effective portion of gain on hedging instruments in a cash flow hedge	-	194,052	-	-
	$ (304,817)	$ (885,925)	$ (579,173)	$ 2,939

a. Accumulated balances of exchange differences on translating foreign operations

Exchange differences relating to the translation of net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (i.e. New Taiwan dollars) are recognized directly in other comprehensive income and under the heading of accumulated balances of exchange differences on translating foreign operation. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

b. Unrealized gains or losses from available-for-sale financial assets

Unrealized gains or losses from available-for-sale financial assets represents the cumulative gains and losses arising on the revaluation of AFS that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

c. Effective portion of gain on hedging instruments in a cash flow hedge

Effective portion of gain on hedging instruments in a cash flow hedge represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognized and accumulated under the heading of effective portion of gain on hedging instruments in a cash flow hedge will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item.

Non-controlling Interest

	Three Months Ended March 31	
	2013	2012
Balance, beginning of period	$ -	$ 992,724
Net income contributed to non-controlling interest	-	337,782
Decrease in non-controlling interest due to losing control of subsidiary	-	(250,689)
Vested stock option of non-controlling interest held by subsidiary's employee	-	(33,232)
Balance, end of period	$ -	$ 1,046,585

Treasury Shares

(In Thousands of Shares)

Reason to reacquire	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
Three months ended March 31, 2013				
To transfer shares to the Company's employees	20,825	-	-	20,825
Three months ended March 31, 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.

24. REVENUE

	Three Months Ended March 31	
	2013	2012
Sale of goods	$ 42,251,735	$ 65,748,462
Other operating income	536,782	2,041,119
	$ 42,788,517	$ 67,789,581

The Company designates certain foreign sales as hedged item to hedge the risk of cash flow. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity amounting to NT$258,327 thousand.

For the analysis of main products and other revenue, please refer to Note 37.

25. PROFIT FOR THE PERIOD

The details of profit for the period were as follows:

a. Other income

	Three Months Ended March 31	
	2013	2012
Interest income		
Cash in bank	$ 68,907	$ 166,760
Held-to-maturity financial assets	227	454
Loan	90,501	-
	159,635	167,214

(Continued)

	Three Months Ended March 31	
	2013	2012
Dividend income	$ 10,005	$ 764
Others	88,668	87,239
	$ 258,308	$ 255,217

(Concluded)

b. Other gains and losses

	Three Months Ended March 31	
	2013	2012
Losses on disposal of property, plant and equipment	$ (1,558)	$ (5)
Gain on disposal of investments	29,735	-
Net foreign exchange (loss) gains	(293,419)	448,604
Net gain arising on financial assets classified as held for trading	228,702	-
Net loss arising on financial liabilities classified as held for trading	-	(210,837)
Hedge ineffectiveness on cash flow hedges	151,197	-
Impairment loss	(342,486)	-
Other losses	(14,725)	(36,401)
	$ (242,554)	$ 201,361

Gain or loss on financial assets and liabilities held for trading was made on forward exchange transactions. The Company entered into forward exchange transactions to manage exposures related to exchange rate fluctuations.

c. Impairment losses on financial assets

	Three Months Ended March 31	
	2013	2012
Trade receivables (included in operating expense)	$ 397,916	$ 505,078
Other receivables (included in operating expense)	177,900	-
	$ 575,816	$ 505,078

d. Depreciation and amortization

	Three Months Ended March 31	
	2013	2012
Property, plant and equipment	$ 694,689	$ 542,213
Intangible assets	494,060	467,576
	$ 1,188,749	$ 1,009,789
Classification of depreciation - by function		
Cost of revenues	$ 356,944	$ 304,283
Operating expenses	337,745	237,930
	$ 694,689	$ 542,213

(Continued)

	Three Months Ended March 31	
	2013	2012
Classification of amortization - by function		
Cost of revenues	$ 917	$ 125,377
Operating expenses	493,143	342,199
	$ 494,060	$ 467,576

(Concluded)

e. Employee benefits expense

	Three Months Ended March 31	
	2013	2012
Post-employment benefits (Note 22)		
Defined contribution plans	$ 173,749	$ 166,293
Defined benefit plans	325	592
	174,074	166,885
Other employee benefits	4,305,256	5,297,197
Total employee benefits expense	$ 4,479,330	$ 5,464,082
Classification - by function		
Cost of revenues	$ 1,459,820	$ 1,444,022
Operating expenses	3,019,510	4,020,060
	$ 4,479,330	$ 5,464,082

f. Impairment losses on non-financial assets

	Three Months Ended March 31	
	2013	2012
Inventories (included in cost of revenues)	$ 199,666	$ 73,993
Goodwill (included in other gains and losses)	342,486	-
	$ 542,152	$ 73,993

26. INCOME TAX

a. Income tax recognized in profit or loss

	Three Months Ended March 31	
	2013	2012
Current tax		
In respect of the current year	$ 126,682	$ 373,584
In respect of the prior year	61,952	1,308
	188,634	374,892
Deferred income tax		
In respect of the current year	(171,015)	393,465
Income tax recognized in profit or loss	$ 17,619	$ 768,357

b. The imputation credit account ("ICA") information as of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, were as follows:

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Unappropriated earnings generated from 1998	$ 53,715,903	$ 53,630,777	$ 80,153,693	$ 75,687,478
Balance of ICA	$ 5,970,346	$ 5,966,033	$ 2,538,741	$ 2,523,575

The actual creditable ratio for distribution of earnings of 2011 was 15.99% and estimated creditable ratio for distribution of earnings of 2012 was 13.53%.

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 earning distribution, cause its shareholders 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 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.

c. 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.

27. EARNINGS PER SHARE

(A Dollar Per Share)

	Three Months Ended March 31	
	2013	2012
Basic EPS	$ 0.10	$ 5.35
Diluted EPS	$ 0.10	$ 5.35

The earnings and weighted average number of ordinary shares used in the calculation of earnings per share were as follows:

Profit for the Period

	Three Months Ended March 31	
	2013	2012
Profit for the period attributable to owners of the parent	$ 85,126	$ 4,466,215

Shares

(In Thousands of Shares)

	Three Months Ended March 31	
	2013	**2012**
Weighted average number of outstanding shares in the calculation of basic EPS	831,227	834,256
The dilutive effect of potential common stock:		
Bonus to employees	22	843
Weighted average number of outstanding shares in the calculation of diluted EPS	831,249	835,099

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 outstanding shares 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.

28. BUSINESS COMBINATIONS

Subsidiaries Acquired

	Principal Activity	Date of Acquisition	Proportion of Equity Interests Acquired (%)	Consideration Transferred
FunStream Corporation	Design, research and development of 3-D technology	February 2012	100.00%	$ 45,090

The Company acquired FunStream Corporation to obtain its techniques in the design, research and development of 3-D technology. The Company paid cash for the acquisition of FunStream Corporation.

Assets Acquired and Liabilities Recognized at the Date of Acquisition

	FunStream Corporation
Current assets	
Cash and cash equivalents	$ 69
Other receivables	4
Net assets	$ 73

Goodwill Arising on Acquisition

	FunStream Corporation
Consideration transferred	$ 45,090
Less: Fair value of identifiable net assets acquired	(73)
Goodwill arising on acquisition	$ 45,017

Net Cash Outflow on Acquisition of Subsidiaries

	Three Months Ended March 31	
	2013	2012
Consideration paid in cash	$ -	$ 45,090
Less: Cash and cash equivalent balances acquired	-	(69)
	$ -	$ 45,021

Impact of Acquisitions on the Results of the Company

From the acquisition date, the operating performance of acquirees is as follows:

	Three Months Ended March 31, 2012
Revenue	
FunStream Corporation	$ -
Net income (loss)	
FunStream Corporation	$ (44)

If the business combinations occur at the beginning of the fiscal year, the operating performance of acquirees is as follow. The assumed figures provided for explanation cannot reflect the actual revenues and operating results on the date of business combination or forecast future operating results.

	Three Months Ended March 31, 2012
Revenue	
FunStream Corporation	$ -
Net income (loss)	
FunStream Corporation	$ (44)

29. DISPOSAL OF SUBSIDIARY

The Company and CHT each had held 50% share of Huada, respectively. 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 July 2012, the Company sold back 25% of Beats Electronics, LLC shares to the founding members of Beats for US$150,000 thousand. Beats specializes in design, research and development of audio technology. After the above transactions were completed, the Company lost its control on Beats.

Consideration Received

Three-year non-recourse secured promissory notes (the "Notes"), totaling US$150,000 thousand, were issued by the buying party for the above buy back of Beats Electronics, LLC 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.

Analysis of Asset and Liabilities Over Which Control Was Lost

	Huada Digital Corporation	Beats Electronics, LLC
Current assets		
Cash and cash equivalents	$ 501,425	$ 6,746,277
Other current assets	123	5,928,728
Non-current assets	-	9,966,683
Current liabilities	(170)	(11,037,967)
Net assets disposed of	$ 501,378	$ 11,603,721

Loss on Disposal of a Subsidiary

	Huada Digital Corporation	Beats Electronics, LLC
Consideration received	$ -	$ 4,498,923
Net assets disposed of	(501,378)	(11,603,721)
Non-controlling interests	250,689	1,550,253
Remaining investment measured at fair value	250,689	5,340,277
Loss on disposal	$ -	$ (214,268)

In July 2012, the Company sold back 25% of Beats Electronics, LLC shares to the founding members of Beats Electronics, LLC 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).

Net Cash Outflow on Disposal of a Subsidiary

	Three Months Ended March 31	
	2013	2012
Consideration received in cash and cash equivalents	$ -	$ -
Less: Cash and cash equivalent balances disposed of	-	(501,425)
	$ -	$ (501,425)

30. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure its ability to continue as a going concern while maximizing the returns to shareholders. The Company periodically reviews its capital structure by taking into consideration macroeconomic conditions, prevailing interest rate, and adequacy of cash flows generated from operations; as the situation would allow, the Company pays dividends, issues new shares, repurchases shares, issues new debt, and redeems debt.

The Company is not subject to any externally imposed capital requirements.

31. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Financial instruments with unmeasurable fair value

Financial instruments with unmeasurable fair value held by the Company include held-to-maturity financial assets and financial assets measured at cost. Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities with unmeasurable fair value approximate their fair value or the fair value are not measured reliably.

	March 31, 2013		December 31, 2012		March 31, 2012		January 1, 2012	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets								
Held-to-maturity investments	$ 101,036	$ 101,023	$ 101,459	$ 101,436	$ 203,764	$ 203,093	$ 204,597	$ 203,783

b. Fair value measurements recognized in the consolidated balance sheet.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

March 31, 2013

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 228,702	$ -	$ 228,702
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 173	$ -	$ -	$ 173

December 31, 2012

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 6,950	$ -	$ 6,950
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 197	$ -	$ -	$ 197
Foreign listed stocks - equity investments	37,902	-	-	37,902
	$ 38,099	$ -	$ -	$ 38,099
Hedging derivative assets				
Derivative financial instruments	$ -	$ 204,519	$ -	$ 204,519

March 31, 2012

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 324	$ -	$ -	$ 324
Foreign listed stocks - equity investments	186,532	-	-	186,532
Mutual funds	737,392	-	-	737,392
	$ 924,248	$ -	$ -	$ 924,248
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 210,837	$ -	$ 210,837

January 1, 2012

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 256,868	$ -	$ 256,868
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 279	$ -	$ -	$ 279
Mutual funds	736,031	-	-	736,031
	$ 736,310	$ -	$ -	$ 736,310

There were no transfers between Level 1 and 2 in the period.

c. Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed corporate bonds). Where such prices are not available, methods of valuation are adopted to arrive at an estimate of financial assets and financial liabilities. Valuation methods incorporate assumptions that marketplace participants would use in their estimates of fair value whenever that information is available without undue cost and effort;

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Valuation methods incorporate assumptions that marketplace participants would use in their estimates of fair value whenever that information is available without undue cost and effort.

  Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts; and

- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Categories of Financial Instruments

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Financial assets				
FVTPL				
Held for trading	$ 228,702	$ 6,950	$ -	$ 256,868
Derivative instruments in designated hedge accounting relationships	-	204,519	-	-
Held-to-maturity investments	101,036	101,459	203,764	204,597
Loans and receivables (Note 1)	88,399,849	106,905,775	133,385,274	154,238,630
Available-for-sale financial assets (Note 2)	4,444,173	4,343,006	4,396,283	4,144,964
Financial liabilities				
FVTPL				
Held for trading	-	-	210,837	-
Amortized cost (Note 3)	110,421,925	112,885,370	106,254,784	126,068,921

Note 1: Including cash and cash equivalents, other current financial assets, note and trade receivables and other receivables.

Note 2: Including available-for-sale financial assets and financial assets measured at cost.

Note 3: Including note and trade payables and other payables.

Financial Risk Management Objectives and Policies

The Company's financial instruments mainly include equity and debt investments, trade receivables, other receivables, trade payables and other payables. The Company's Department of Financial and Accounting provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through analyzing the exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The Company seeks to minimize the effects of these risks by using derivative financial instruments and non-derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on foreign exchange risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Department of Financial and Accounting reports quarterly to the Company's supervisory and board of directors for monitoring risks and policies implemented to mitigate risk exposures.

a. Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk.

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

<u>Foreign currency risk</u>

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period please refer to Note 35.

<u>Foreign currency sensitivity analysis</u>

The Company is mainly exposed to the currency of United Stated dollars ("USD"), Euro ("EUR"), Renminbi ("RMB") and Japanese yen ("JPY").

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and the forward exchange contracts were entered into cash flow hedges. A positive number below indicates an increase in profit before income tax or equity where the NTD strengthens 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be a comparable impact on the profit before income tax or equity, and the balances below would be negative.

	Profit or Loss (1)	Equity (2)
Three months ended March 31, 2013		
USD	$ 188,796	$ -
EUR	3,995	-
RMB	(42,762)	-
JPY	10,147	-
Three months ended March 31, 2012		
USD	(39,003)	-
EUR	2,780	-
RMB	(8,080)	-
JPY	1,735	-

1) This is mainly attributable to the exposure outstanding on each currency receivables and payables in the Company at the end of the reporting period.

2) This is mainly as a result of the changes in fair value of derivative instruments designated as hedging instruments in cash flow hedges.

b. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. As of March 31, 2013, the Company may have financial losses due to the default on obligation from counterparties. The maximum exposure to credit risk is the carrying amount of financial assets reported on consolidated balance sheet. The Company does not issue any financial guarantee involving credit risk.

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The credit risk information of trade receivables are disclosed in the Note 13.

c. Liquidity risk

The Company manages liquidity risk to ensure that the Company possesses sufficient financial flexibility by maintaining adequate reserves of cash and cash equivalents and reserve financing facilities, and also monitor liquidity risk of shortage of funds by the maturity date of financial instruments and financial assets.

1) Liquidity risk tables

The following tables detail the Company's remaining contractual maturity for its derivative financial liabilities and non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

March 31, 2013

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 30,299,005	$ 44,954,621	$ -
Other payables	12,153,686	23,014,613	-
Other current liabilities	411,688	147,410	-
Guarantee deposits received	-	-	53,136
	$ 42,864,379	$ 68,116,644	$ 53,136

December 31, 2012

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 25,172,364	$ 48,445,833	$ -
Other payables	16,036,617	23,230,556	-
Other current liabilities	270,073	31,795	-
Guarantee deposits received	-	-	59,999
	$ 41,479,054	$ 71,708,184	$ 59,999

March 31, 2012

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 27,918,299	$ 41,240,738	$ -
Other payables	11,132,281	25,963,466	-
Other current liabilities	272,275	62,691	-
Guarantee deposits received	-	-	43,014
	39,322,855	67,266,895	43,014
Derivative financial liabilities			
Forward exchange contracts	210,837	-	-
	$ 39,533,692	$ 67,266,895	$ 43,014

January 1, 2012

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 33,234,316	$ 45,238,814	$ -
Other payables	15,945,336	31,650,455	-
Other current liabilities	274,995	165,867	-
Guarantee deposits received	-	-	42,946
	$ 49,454,647	$ 77,055,136	$ 42,946

2) Bank credit limit

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Unsecured bank general credit limit				
Amount used	$ 1,416,110	$ 1,572,461	$ 1,881,972	$ 1,892,407
Amount unused	45,719,077	45,104,312	10,657,813	10,899,663
	$ 47,135,187	$ 46,676,773	$ 12,539,785	$ 12,792,070

32. RELATED-PARTY TRANSACTIONS

Transactions, account balance and revenue and expense between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and other related parties were as follows:

Operating Transactions

	Three Months Ended March 31			
	Sales		Purchase	
	2013	2012	2013	2012
Other related parties - Employees' Welfare Committee	$ 22,550	$ 219,617	$ -	$ -
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	6,172	2,238,561	40,264	-
	$ 28,722	$ 2,458,178	$ 40,264	$ -

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. Purchase prices for related parties and third parties were similar.

As of reporting date, receivables from related parties were as follows:

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Other related parties - Employees' Welfare Committee	$ 23,497	$ -	$ -	$ -
Other related parties - other related parties' chairperson, also as its significant stockholder, is HTC's chairperson	988	221,050	1,328,406	473
	$ 24,485	$ 221,050	$ 1,328,406	$ 473

As of reporting date, payables to related parties were as follows:

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Other related parties - other related parties' chairperson, also as its significant stockholder, is HTC's chairperson	$ 8,444	$ 19,269	$ -	$ -

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior period for bad or doubtful debts in respect of the amounts owed by related parties.

Loans to Related Parties

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Associates				
Principal	$ 6,719,063	$ 6,554,025	$ -	$ -
Interest receivables	69,644	46,068	-	-
	$ 6,788,707	$ 6,600,093	$ -	$ -

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 Electronics, LLC into a product company. This loan was secured by all the assets of Beats Electronics, LLC. 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 any time 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 interest income amounted to NT$90,501 thousand for the three months ended March 31, 2013.

Compensation of Key Management Personnel

The remuneration of directors and other members of key management personnel for the three months ended March 31, 2013 and 2012 were as follows:

	Three Months Ended March 31	
	2013	2012
Short-term benefits	$ 52,710	$ 49,364
Post-employment benefits	1,054	4,410
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	$ 53,764	$ 53,774

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Other Related-party Transactions

a. To enhance product diversity, the Company entered into a trademark and technology license agreement with associates and other related parties. The royalty expense was NT$68,310 thousand for the three months ended March 31, 2013. As of March 31, 2013 and December 31, 2012, the amounts of unpaid royalty were NT$83,354 thousand and NT$130,960 thousand, respectively.

b. Other related parties provide business consulting service to the Company. The business consulting service fees were NT$1,308 thousand and NT$600 thousand for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the unpaid business consulting service fees were NT$0 thousand, NT$3,398 thousand, NT$1,225 thousand and NT$210 thousand, respectively.

c. The Company leased staff dormitory owned by a related party under an operating lease agreement. The term of the lease agreement is from April 2012 to March 2015 and the rental payment is determined at the prevailing rates in the surrounding area. The Company recognized and paid rental expenses amounting to NT$1,302 thousand for the three months ended March 31, 2013 and 2012, each.

d. The Company purchased auxiliary facilities of a building from other related parties. For the three months ended March 31, 2013 and 2012, the Company paid NT$3,238 thousand and NT$31,929 thousand, respectively, for the purchases.

33. PLEDGED ASSETS

To protect the rights and interests of its employees, In September 2012, the Company deposited unpaid employee bonus in a new trust account. The trust account, which is under other current financial assets, had amounted to NT$3,656,057 thousand and NT$3,645,820 thousand as of March 31, 2013 and December 31, 2012, respectively.

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012 the Company had provided time deposits of NT$2,120 thousand, NT$3,700 thousand, NT$38,853 thousand and NT$68,700 thousand had been classified as other current financial assets, respectively, as collateral for rental deposits and as part of the requirements for the Company to get a certificate from the National Tax Administration of the Northern Taiwan Province stating that it had no pending income tax.

34. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

As of March 31, 2013, unused letters of credit amounted to US$103 thousand.

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 the date that the board of directors approved and authorized for issuing consolidated financial statements, 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 the Company 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.

   On March 8, 2013, the District Court of Mannheim dismissed Nokia's infringement complaint against the Company, including the German part of its EP0812120 (the '120 patent) and EP1312974 (the '974 patent). The Company also believes that both '120 and '947 patent is invalid, and will continue with invalidity actions pending in the English Patents Court and German Federal Patents Court. The Company fully expects the patent 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). The Company will be appealing the present decision but also believes that this patent is invalid and so will be continuing with the invalidity actions in 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 the Company 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 in the German Federal Patents Court and the English Patents Court.

As of the date that the board of directors approved and authorized for issuing consolidated financial statements, there had been no critical hearing nor had a court decision been made, except for the above.

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

35. EXCHANGE RATES OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	March 31, 2013		December 31, 2012		March 31, 2012		January 1, 2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets								
Monetary items								
USD	$ 2,217,767	29.86	$ 2,967,669	29.13	$ 2,972,851	29.51	$ 3,143,462	30.28
EUR	242,418	38.26	317,011	38.42	455,681	39.41	498,383	39.19
JPY	11,009,868	0.3175	10,626,742	0.3383	179,130	0.3593	373,750	0.3906
RMB	1,811,975	4.81	2,142,619	4.68	984,364	4.6737	1,344,825	4.77
Non-monetary items								
USD	125,407	29.86	123,781	29.13	96,455	29.51	89,493	30.28
Investments accounted for by the equity method								
USD	170,070	29.86	193,639	29.13	2,215	29.51	2,500	30.28
Financial liabilities								
Monetary items								
USD	2,789,016	29.86	3,107,166	29.13	3,129,541	29.51	3,372,400	30.28
EUR	261,633	38.26	297,681	38.42	498,907	39.41	583,741	39.19
JPY	13,607,172	0.3175	17,276,121	0.3383	594,546	0.3593	678,211	0.3906
RMB	2,026,314	4.81	2,310,079	4.68	1,543,807	4.6737	1,463,205	4.77

36. SIGNIFICANT CONTRACTS

Patent Agreement

The Company specializes in the research, design, manufacture and sale of smart mobile 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.

(Continued)

Contractor	Contract Term	Description
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.
Inter Digital 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.

(Concluded)

37. 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 IFRS 8 - "Operating Segments," the Company is organized and managed as a single reportable business segment. The Company's operations are mainly in the research, design, manufacture and sale of smart mobile devices, and the operating revenue is more than 90 percent of the total revenue.

Operating segment financial information is as follows:

Geographical Areas

The Company's non-current assets (other than financial instruments, deferred tax assets and post-employment benefit assets) located in Taiwan and in single foreign country as of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012 were as follows:

	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Taiwan	$ 30,465,352	$ 30,004,905	$ 27,988,876	$ 26,579,662
Country W	5,005,352	5,077,921	5,215,001	5,236,960
Country X	1,173,908	1,249,807	10,203,765	10,271,855
Country Y	2,182	2,282	3,127	3,652
Country Z	2,717	2,956	3,948	4,312
Others	11,331,982	11,212,817	12,535,004	13,041,797
	$ 47,981,493	$ 47,550,688	$ 55,949,721	$ 55,138,238

The Company's revenues from Taiwan and from single foreign country that were 10 percent or more of consolidated total revenues for the three months ended March 31, 2013 and 2012 were as follows:

	Three Months Ended March 31	
	2013	2012
Taiwan	$ 4,998,294	$ 6,687,953
Country W	11,320,459	5,584,103
Country X	7,582,119	10,504,699
Country Y	4,797,715	35,526
Country Z	358,779	7,107,093
Others	13,731,151	37,870,207
	$ 42,788,517	$ 67,789,581

Major Customers

Revenues for the three months ended March 31, 2013 and 2012, from transactions with a single external customer that were 10 percent or more were as follows:

	Three Months Ended March 31	
Customer	2013	2012
A	$ 4,672,595	$ 942
B	73,144	7,490,514
	$ 4,745,739	$ 7,491,456

38. FIRST-TIME ADOPTION OF IFRSs

a. The basis of preparation for IFRS information

The Company's consolidated financial statements for three months ended March 31, 2013 was the first IFRSs interim financial statements. The basis of preparation followed the Note 4 significant accounting policies, the Company also followed IFRS 1 - "First-time Adoption of International Financial Reporting Standards".

b. Effect of the transition from ROC GAAP to IFRSs

1) Reconciliation of consolidated balance sheet as of January 1, 2012

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	Note
Assets					Assets	
Current assets					Current assets	
Cash and cash equivalents	$ 87,501,508	$ -	$ (25,474,750)	$ 62,026,758	Cash and cash equivalents	a)
Financial assets at fair value through profit or loss - current	256,868	-	-	256,868	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	736,031	-	-	736,031	Available-for-sale financial assets - current	
Restricted assets - current	68,700	-	25,474,750	25,543,450	Other current financial assets	a)
Note and trade receivables, net	64,719,791	-	-	64,719,791	Note and trade receivables, net	
Other current financial assets	1,947,665	-	-	1,947,665	Other receivables	
Other receivables - related parties	966	-	-	966	Other receivables - related parties	
Income tax receivables	263,116	-	-	263,116	Current tax assets	
Inventories	28,430,590	-	-	28,430,590	Inventories	
Prepayments	6,507,516	-	-	6,507,516	Prepayments	
Deferred income tax assets - current	2,246,196	-	(2,246,196)	-	-	b)
Other current assets	249,644	-	-	249,644	Other current assets	
Total current assets	192,928,591	-	(2,246,196)	190,682,395	Total current assets	
Non-current assets					Non-current assets	
Held-to-maturity financial assets - non-current	204,597	-	-	204,597	Held-to-maturity financial assets - non-current	
Available-for-sale financial assets - non-current	279	-	-	279	Available-for-sale financial assets - non-current	
Financial assets measured at cost - non-current	3,408,654	-	-	3,408,654	Financial assets measured at cost - non-current	
Financial assets measured at cost - non-current	3,408,654	-	-	3,408,654	Financial assets measured at cost - non-current	
Investments accounted for using the equity method	71,732	-	-	71,732	Investments accounted for using the equity method	
Properties	21,512,478	-	203,155	21,715,633	Property, plant and equipment	g), h)
Intangible assets	22,560,788	(342)	207,033	22,767,479	Intangible assets	d), g)
Refundable deposits	185,306	-	-	185,306	Refundable deposits	
Deferred charges	763,516	-	(763,516)	-	-	g)
Deferred income assets tax - non-current	3,675,521	58,000	2,586,457	6,319,978	Deferred tax assets	b), c)
Prepaid pension cost - non-current	183,703	(83,052)	-	100,651	Prepaid pension cost - non-current	d)
Other non-current assets	10,301,798	-	353,328	10,655,126	Other non-current assets	g), h)
Total non-current assets	62,868,372	(25,394)	2,586,457	65,429,435	Total non-current assets	
Total	$ 255,796,963	$ (25,394)	$ 340,261	$ 256,111,830	Total	

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	Note
Liabilities and stockholders' equity					Liabilities and stockholders' equity	
Current liabilities					Current liabilities	
Note and trade payables	$ 78,473,130	$ -	$ -	$ 78,473,130	Note and trade payables	
Other payables	47,496,470	99,321	-	47,595,791	Other payables	f)
Income tax payables	10,570,682	-	-	10,570,682	Current tax liabilities	
-	-	-	15,133,275	15,133,275	Provisions - current	e)
Other current liabilities	16,794,415	-	(15,133,275)	1,661,140	Other current liabilities	e)
Total current liabilities	153,334,697	99,321	-	153,434,018	Total current liabilities	
Non-current liabilities					Non-current liabilities	
-	-	-	340,261	340,261	Deferred tax liabilities	b)
Guarantee deposits received	42,946	-	-	42,946	Guarantee deposits received	
Total non-current liabilities	42,946	-	340,261	383,207	Total non-current liabilities	
Total liabilities	153,377,643	99,321	340,261	153,817,225	Total liabilities	
Stockholders' equity					Equity attributable to owners of the parent	
Common stock	8,520,521	-	-	8,520,521	Common stock	
Capital surplus	16,619,594	(18,037)	-	16,601,557	Capital surplus	i)
Retained earnings	86,616,845	(74,837)	-	86,542,008	Retained earnings	c), d), f), i), j)
Other equity					Other equity	
Cumulative translation adjustments	32,134	(32,134)	-	-	Accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation	j)
Net losses not recognized as pension cost	(293)	293	-	-	-	d)
Unrealized gains or losses from available-for-sale financial assets	2,939	-	-	2,939	Unrealized gains or losses from available-for-sale financial assets	
Treasury shares	(10,365,144)	-	-	(10,365,144)	Treasury shares	
Total equity attributable to stockholders of the parent	101,426,596	(124,715)	-	101,301,881	Total equity attributable to owners of the parent	
Minority interest	992,724	-	-	992,724	Non-controlling interest	
Total stockholders' equity	102,419,320	(124,715)	-	102,294,605	Total equity	
Total	$ 255,796,963	$ (25,394)	$ 340,261	$ 256,111,830	Total	

(Concluded)

2) Reconciliation of consolidated balance sheet as of March 31, 2012

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	Note
Assets					Assets	
Current assets					Current assets	
Cash and cash equivalents	$ 79,591,273	$ -	$ (26,495,350)	$ 53,095,923	Cash and cash equivalents	a)
Available-for-sale financial assets - current	737,392	-	-	737,392	Available-for-sale financial assets - current	
Restricted assets - current	38,853	-	26,495,350	26,534,203	Other current financial assets	a)
Note and trade receivables, net	52,325,059	-	-	52,325,059	Note and trade receivables, net	
Other current financial assets	1,430,089	-	-	1,430,089	Other receivables	
Income tax receivables	248,530	-	-	248,530	Current tax assets	
Inventories	28,993,944	-	-	28,993,944	Inventories	
Prepayments	6,383,271	-	-	6,383,271	Prepayments	

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	Note
Deferred income tax assets - current	$ 2,038,910	$ -	$ (2,038,910)	$ -	-	b)
Other current assets	77,174	-	-	77,174	Other current assets	
Total current assets	171,864,495	-	(2,038,910)	169,825,585	Total current assets	
Non-current assets					Non-current assets	
Held-to-maturity financial assets - non-current	203,764	-	-	203,764	Held-to-maturity financial assets - non-current	
Available-for-sale financial assets - non-current	186,856	-	-	186,856	Available-for-sale financial assets - non-current	
Financial assets measured at cost - non-current	3,472,035	-	-	3,472,035	Financial assets measured at cost - non-current	
Investments accounted for using the equity method	316,145	-	-	316,145	Investments accounted for using the equity method	
Properties	22,471,729	-	218,070	22,689,799	Property, plant and equipment	g), h)
Intangible assets	21,947,552	(342)	192,345	22,139,555	Intangible assets	d), g)
Refundable deposits	199,327	-	-	199,327	Refundable deposits	
Deferred charges	798,067	-	(798,067)	-	-	g)
Deferred income assets tax - non-current	3,506,342	41,000	2,488,143	6,035,485	Deferred tax assets	b), c)
Prepaid pension cost - non-current	189,111	(82,596)	-	106,515	Prepaid pension cost - non-current	d)
Other non-current assets	10,732,715	-	387,652	11,120,367	Other non-current assets	g), h)
Total non-current assets	64,023,643	(41,938)	2,488,143	66,469,848	Total non-current assets	
Total	$ 235,888,138	$ (41,938)	$ 449,233	$ 236,295,433	Total	
Liabilities and stockholders' equity					Liabilities and stockholders' equity	
Current liabilities					Current liabilities	
Financial liabilities at fair value through profit or loss - current	$ 210,837	$ -	$ -	$ 210,837	Financial liabilities at fair value through profit or loss - current	
Note and trade payables	69,159,037	-	-	69,159,037	Note and trade payables	
Other payables	37,011,993	83,754	-	37,095,747	Other payables	f)
Income tax payables	10,438,543	-	-	10,438,543	Current tax liabilities	
-	-	-	14,879,493	14,879,493	Provisions - current	e)
Other current liabilities	16,366,799	-	(14,879,493)	1,487,306	Other current liabilities	e)
Total current liabilities	133,187,209	83,754	-	133,270,963	Total current liabilities	
Non-current liabilities					Non-current liabilities	
-	-	-	449,233	449,233	Deferred tax liabilities	b)
Guarantee deposits received	43,014	-	-	43,014	Guarantee deposits received	
Total non-current liabilities	43,014	-	449,233	492,247	Total non-current liabilities	
Total liabilities	133,230,223	83,754	449,233	133,763,210	Total liabilities	
Stockholders' equity					Equity attributable to owners of the parent	
Common stock	8,520,521	-	-	8,520,521	Common stock	
Capital surplus	16,619,594	(18,037)	-	16,601,557	Capital surplus	i)
Retained earnings	91,084,037	(75,814)	-	91,008,223	Retained earnings	c), d), f), i), j)
Other equity					Other equity	
Cumulative translation adjustments	(664,130)	(32,134)	-	(696,264)	Accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation	j)
Net losses not recognized as pension cost	(293)	293	-	-	-	d)
Unrealized gains or losses from available-for-sale financial assets	117,091	-	-	117,091	Unrealized gains or losses from available-for-sale financial assets	
Treasury shares	(14,065,490)	-	-	(14,065,490)	Treasury shares	
Total equity attributable to stockholders of the parent	101,611,330	(125,692)	-	101,485,638	Total equity attributable to owners of the parent	
Minority interest	1,046,585	-	-	1,046,585	Non-controlling interest	
Total stockholders' equity	102,657,915	(125,692)	-	102,532,223	Total equity	
Total	$ 235,888,138	$ (41,938)	$ 449,233	$ 236,295,433	Total	

(Concluded)

3) Reconciliation of consolidated balance sheet as of December 31, 2012

ROC GAAP Item	ROC GAAP Amount	Effect of the Transition from ROC GAAP to IFRSs: Measurement or Recognition Difference	Effect of the Transition from ROC GAAP to IFRSs: Presentation Difference	IFRSs Amount	IFRSs Item	Note
Assets					Assets	
Current assets					Current assets	
Cash and cash equivalents	$ 53,878,067	$ -	$ (2,911,924)	$ 50,966,143	Cash and cash equivalents	a)
Financial assets at fair value through profit or loss - current	6,950	-	-	6,950	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	37,902	-	-	37,902	Available-for-sale financial assets - current	
Held-to-maturity financial assets - current	101,459	-	-	101,459	Held-to-maturity financial assets - current	
Derivative financial assets for hedging - current	204,519	-	-	204,519	Derivative financial assets for hedging - current	
Restricted assets - current	3,649,520	-	2,911,924	6,561,444	Other current financial assets	a)
Note and trade receivables, net	41,253,826	-	-	41,253,826	Note and trade receivables, net	
Other current financial assets	1,524,269	-	-	1,524,269	Other receivables	
Other receivables - related parties	6,600,093	-	-	6,600,093	Other receivables - related parties	
Income tax receivables	61,532	-	-	61,532	Current tax assets	
Inventories	23,809,377	-	-	23,809,377	Inventories	
Prepayments	4,965,814	-	-	4,965,814	Prepayments	
Deferred income tax assets - current	3,530,215	-	(3,530,215)	-	-	b)
Other current assets	39,097	-	-	39,097	Other current assets	
Total current assets	139,662,640	-	(3,530,215)	136,132,425	Total current assets	
Non-current assets					Non-current assets	
Available-for-sale financial assets - non-current	197	-	-	197	Available-for-sale financial assets - non-current	
Financial assets measured at cost - non-current	4,304,907	-	-	4,304,907	Financial assets measured at cost - non-current	
Investments accounted for using the equity method	5,892,168	-	-	5,892,168	Investments accounted for using the equity method	
Properties	25,651,292	-	339,474	25,990,766	Property, plant and equipment	g), h)
Intangible assets	11,520,674	(269)	162,765	11,683,170	Intangible assets	d), g)
Refundable deposits	190,142	-	-	190,142	Refundable deposits	
Deferred charges	897,164	-	(897,164)	-	-	g)
Deferred income assets tax - non-current	4,427,776	83,915	4,178,151	8,689,842	Deferred tax assets	b), c), d)
Long-term receivables	4,369,350	-	-	4,369,350	Long-term receivables	
Prepaid pension cost - non-current	205,989	(86,716)	-	119,273	Prepaid pension cost - non-current	d)
Other non-current assets	9,481,827		394,925	9,876,752	Other non-current assets	g), h)
Total non-current assets	66,941,486	(3,070)	4,178,151	71,116,567	Total non-current assets	
Total	$ 206,604,126	$ (3,070)	$ 647,936	$ 207,248,992	Total	
Liabilities and stockholders' equity					Liabilities and stockholders' equity	
Current liabilities					Current liabilities	
Note and trade payables	$ 73,618,197	$ -	$ -	$ 73,618,197	Note and trade payables	
Other payables	39,173,722	93,451	-	39,267,173	Other payables	f)
Income tax payables	2,713,373	-	-	2,713,373	Current tax liabilities	
-	-	-	8,881,514	8,881,514	Provisions - current	e)
Other current liabilities	10,669,620	-	(8,881,514)	1,788,106	Other current liabilities	e)
Total current liabilities	126,174,912	93,451	-	126,268,363	Total current liabilities	
Non-current liabilities					Non-current liabilities	
-	-	-	647,936	647,936	Deferred tax liabilities	b)
Guarantee deposits received	59,999	-	-	59,999	Guarantee deposits received	
Total non-current liabilities	59,999	-	647,936	707,935	Total non-current liabilities	
Total liabilities	126,234,911	93,451	647,936	126,976,298	Total liabilities	

(Continued)

ROC GAAP Item	ROC GAAP Amount	Effect of the Transition from ROC GAAP to IFRSs: Measurement or Recognition Difference	Effect of the Transition from ROC GAAP to IFRSs: Presentation Difference	IFRSs Amount	IFRSs Item	Note
Stockholders' equity					Equity attributable to owners of the parent	
Common stock	$ 8,520,521	$ -	$ -	$ 8,520,521	Common stock	
Capital surplus	16,619,594	(18,037)	-	16,601,557	Capital surplus	i)
Retained earnings	70,148,728	(46,697)	-	70,102,031	Retained earnings	c), d), f), i), j)
Other equity					Other equity	
Cumulative translation adjustments	(1,057,559)	(32,134)	-	(1,089,693)	Accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation	j)
Net losses not recognized as pension cost	(347)	347	-	-	-	d)
Unrealized gains or losses from available-for-sale financial assets	9,716	-	-	9,716	Unrealized gains or losses from available-for-sale financial assets	
Effective portion of gains and losses on hedging instruments in a cash flow hedge	194,052	-	-	194,052	Effective portion of gains and losses on hedging instruments in a cash flow hedge	
Treasury shares	(14,065,490)	-	-	(14,065,490)	Treasury shares	
Total equity attributable to stockholders of the parent	80,369,215	(96,521)	-	80,272,694	Total equity attributable to owners of the parent	
Total	$ 206,604,126	$ (3,070)	$ 647,936	$ 207,248,992	Total	

(Concluded)

4) Reconciliation of consolidated statement of comprehensive income for the three months ended March 31, 2012

ROC GAAP Item	ROC GAAP Amount	Effect of the Transition from ROC GAAP to IFRSs: Measurement or Recognition Difference	Effect of the Transition from ROC GAAP to IFRSs: Presentation Difference	IFRSs Amount	IFRSs Item	Note
Revenues	$ 67,789,581	$ -	$ -	$ 67,789,581	Revenues	
Cost of revenues	50,819,406	(9,021)	-	50,810,385	Cost of revenues	d), f)
Gross profit	16,970,175	9,021	-	16,979,196	Gross profit	
Operating expenses					Operating expenses	
Selling and marketing	6,724,037	(1,789)	-	6,722,248	Selling and marketing	d), f)
General and administrative	1,714,817	(744)	-	1,714,073	General and administrative	d), f)
Research and development	3,426,778	(4,469)	-	3,422,309	Research and development	d), f)
Total operating expenses	11,865,632	(7,002)	-	11,858,630	Total operating expenses	
Operating profit	5,104,543	16,023	-	5,120,566	Operating profit	
Non-operating income and expenses	451,788	-	-	451,788	Non-operating income and expenses	
Profit before income tax	5,556,331	16,023	-	5,572,354	Profit before income tax	
Income tax	(751,357)	(17,000)	-	(768,357)	Income tax	c)
Profit for the period	$ 4,804,974	$ (977)	$ -	4,803,997	Profit for the period	
				(696,264)	Exchange differences resulting from translating the financial statements of a foreign operation	
				114,152	Unrealized valuation gains and losses from available-for-sale financial assets	
				-	Income tax relating to components of other comprehensive income	
				(582,112)	Other comprehensive income and loss for the period, net of income tax	
				$ 4,221,885	Total comprehensive income	

5) Reconciliation of consolidated statement of comprehensive income for 2012

ROC GAAP Item	ROC GAAP Amount	Effect of the Transition from ROC GAAP to IFRSs: Measurement or Recognition Difference	Effect of the Transition from ROC GAAP to IFRSs: Presentation Difference	IFRSs Amount	IFRSs Item	Note
Revenues	$ 289,020,175	$ -	$ -	$ 289,020,175	Revenues	
Cost of revenues	216,095,098	(5,772)	-	216,089,326	Cost of revenues	d), f)
Gross profit	72,925,077	5,772	-	72,930,849	Gross profit	
Operating expenses					Operating expenses	
Selling and marketing	32,387,932	(5,369)	-	32,382,563	Selling and marketing	d), f)
General and administrative	6,227,469	364	-	6,227,833	General and administrative	d), f)
Research and development	15,489,969	3,170	-	15,493,139	Research and development	d), f)
Total operating expenses	54,105,370	(1,835)	-	54,103,535	Total operating expenses	
Operating profit	18,819,707	7,607	-	18,827,314	Operating profit	
Non-operating income and expenses	630,751	-	-	630,751	Non-operating income and expenses	
Profit before income tax	19,450,458	7,607	-	19,458,065	Profit before income tax	
Income tax	(1,861,272)	25,000	-	(1,836,272)	Income tax	c)
Profit for the period	$ 17,589,186	$ 32,607	$ -	17,621,793	Profit for the period	
				(1,089,693)	Exchange differences resulting from translating the financial statements of a foreign operation	
				6,777	Unrealized valuation gains and losses from available-for-sale financial assets	
				194,052	Effective portion of gains and losses on hedging instruments in a cash flow hedge	
				(5,382)	Actuarial loss on defined benefit pension plan	d)
				915	Income tax relating to components of other comprehensive income	d)
				(893,331)	Other comprehensive income and loss for the period, net of income tax	
				$ 16,728,462	Total comprehensive income	

6) IFRS 1 optional exemptions

Under IFRS 1, an entity that adopts IFRS 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 were as follows:

a) 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 ROC GAAP as of December 31, 2011.

b) 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.

c) 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.

d) 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.

e) Accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation

The Company elected to reset the accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation 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.

7) Material adjustment instructions of transition from ROC GAAP to IFRSs

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, March 31, and, December 31, 2012, the reclassification adjustment resulted in decreases of NT$25,474,750 thousand, NT$26,495,350 thousand and NT$2,911,924 thousand, respectively, in "cash and cash equivalents" and increases by the same amounts in "other current financial assets."

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, March 31, and, December 31, 2012, the reclassification adjustment resulted in decreases of NT$2,246,196 thousand, NT$2,038,910 thousand and NT$3,530,215 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, March 31, and, December 31, 2012, the reclassification adjustment resulted in decreases of NT$11,132,656 thousand, NT$9,906,884 thousand and NT$6,445,409 thousand, respectively, in "deferred income tax assets" and in the valuation allowance account. Also, as of January 1, March 31, and December 31, 2012, the reclassification adjustment resulted in increases of NT$340,261 thousand, NT$449,233 thousand and NT$647,936 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 IFRS adjustment as of January 1, 2012 resulted in increases of NT$58,000 thousand each in "deferred income tax assets" and "accumulated earnings." In addition, the evaluation adjustment made on March 31, 2012 resulted in increases of NT$41,000 thousand in "deferred income tax assets" and in "accumulated earnings" and an increase in "income tax" by NT$17,000 thousand. Also, the evaluation adjustment made on December 31, 2012 resulted in increases of NT$83,000 thousand in "deferred income tax assets" and in "accumulated earnings" and a decrease in "income tax" by NT$25,000 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 IFRS adjustment resulted in a decrease of NT$83,687 thousand in "accumulated earnings" due to decreases in "deferred pension cost" by NT$342 thousand, "defined benefit assets" by NT$83,052 thousand and "net loss not recognized as pension cost" by NT$293 thousand.

As of March 31, 2012, the IFRS adjustment resulted in a decrease in "accumulated earnings" by NT$83,231 thousand due to decreases in "deferred pension cost" by NT$342 thousand, "defined benefit assets" by NT$82,596 thousand and "net loss not recognized as pension cost" by NT$293 thousand. In addition, this adjustment resulted in decreases in "cost of revenues" by NT$138 thousand, "selling and marketing expenses" by NT$38 thousand, "general and administrative expenses" by NT$43 thousand and "research and developing expenses" by NT$237 thousand.

As of December 31, 2012, the IFRS adjustment resulted in a decrease in "accumulated earnings" by NT$86,417 thousand due to decreases in "deferred pension cost" by NT$269 thousand, "defined benefit assets" by NT$86,716 thousand, "net loss not recognized as pension cost" by NT$347 thousand and increase in "deferred income tax assets" by NT$915 thousand. In addition, this adjustment resulted in decreases in "cost of revenues" by NT$473 thousand, "selling and marketing expenses" by NT$526 thousand, "general and administrative expenses" by NT$193 thousand and "research and developing expenses" by NT$545 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, March 31, and, December 31, 2012, the reclassification adjustment resulted in decreases of NT$15,133,275 thousand, NT$14,879,493 thousand and NT$8,881,514 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 IFRS adjustment resulted in an increase in "accrued expenses" by NT$99,321 thousand and a decrease by the same amount in "accumulated earnings." In addition, the evaluation adjustment made on March 31, 2012 resulted in (a) a decrease in "accumulated earnings" by NT$83,754 thousand due to an increase of "accrued expenses"; (b) decreases in "cost of revenues" by NT$8,883 thousand, "selling and marketing expenses" by NT$1,751 thousand, "general and administrative expenses" by NT$701 thousand and "research and developing expenses" by NT$4,232 thousand. Also, the evaluation adjustment made on December 31, 2012 resulted in (a) a decrease in "accumulated earnings" by NT$93,451 thousand due to an increase of "accrued expenses"; (b) decreases in "cost of revenues" by NT$5,299 thousand and "selling and marketing expenses" by NT$4,843 thousand and (c) increases in "general and administrative expenses" by NT$557 thousand and "research and developing expenses" by NT$3,715 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. Thus, as of January 1, March 31, and, December 31, 2012, the Company reclassified NT$410,217 thousand, NT$429,618 thousand and NT$571,485 thousand, respectively, of "deferred charges" to "property, plant and equipment"; and reclassified NT$207,033 thousand, NT$192,345 thousand and NT$162,765 thousand, respectively, of "deferred charges" to "other intangible assets" and reclassified NT$146,266 thousand, NT$176,104 thousand and NT$162,914 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". Thus, as of January 1, March 31, and, December 31, 2012, the Company reclassified NT$207,062 thousand, NT$211,548 thousand and NT$232,011 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 IFRS adjustment resulted in a decrease of capital surplus - long-term equity investments of NT$18,037 thousand and a corresponding increase of accumulated earnings by related rules.

j) The Company elected to reset the accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation 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 accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation that arose before the date of transition to IFRSs. Therefore, the IFRS adjustment resulted in a decrease in accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation and an increase in accumulated earnings by NT$32,134 thousand each.

8) Material adjustment to consolidated statement of cash flows

Under ROC GAAP, using the indirect method, the interests and dividends received and interests paid were usually classified as operating cash flows, and dividends paid were usually classified as financial cash flows and supplemental cash flows information is provided for interests paid. However, under IFRS 7, cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period either as operating, investing or financing activities. Thus, for the three months ended March 31, 2012, the cash flows of interests and dividends received in the amount of NT$166,472 thousand and NT$764 thousand were disclosed separately.

As of January 1, March 31 and December 31, 2012, time deposits with original maturities more than three months amounted to NT$25,474,750 thousand, NT$26,495,350 thousand and NT$2,911,924 thousand, respectively, and not to be classified as "cash and cash equivalents" in accordance with IFRSs since they are held for investment purpose. For more details of this adjustment, please refer to Note 38 section b.7)a).

Except for the above, the Company's consolidated statement of cash flows in accordance with IFRSs and ROC GAAP had no other significant differences.