

# **HTC Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2017 and 2016 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
HTC Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of HTC Corporation and its subsidiaries (collectively referred to as the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in Taiwan, the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of Taiwan, the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of the consolidated financial statements for the year ended December 31, 2017 are as follows:

#### Allowance for Doubtful Accounts

As of December 31, 2017, the balance of allowance for doubtful accounts amounted to NT\$3,901,541 thousand. The allowance for doubtful accounts was arrived at by reference to the aging of receivables and credit risk assessment of customers. The Company has only one major customer. All the other customers are located in areas with varied economic situations; thus, the credit risk are also varied. The Company's use of judgment in evaluating the adequacy of allowance for doubtful accounts and the large amount of trade receivables make the evaluation of allowance for doubtful accounts a key audit matter.

We obtained an understanding of the accounting policy on the evaluation of allowance for doubtful accounts, including the assessment of credit risk on every customer. We tested the aging schedule prepared by the Company against the supporting documents. We checked compliance with the Company's policy on the evaluation of allowance for doubtful accounts. We compared the allowance for doubtful accounts at the end of the current and prior periods for reasonableness.

For the accounting policy on the evaluation of allowance for doubtful accounts, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Notes 11 and 32.

#### Valuation of Inventories

The Company's operations are mainly in the research, manufacture and sale of smart mobile devices, and the balance of inventories amounted to NT\$7,381,426 thousand as of December 31, 2017. Due to the rapid change in technology, the industry is highly competitive; in addition, since the management needs to apply judgment to evaluate the net realizable value of inventories and as the balance of inventories represents a significant portion of the consolidated financial statements as of December 31, 2017, the valuation of inventories was deemed to be a key audit matter.

We evaluated the accounting policy on the assessment of inventory write-downs. We obtained an understanding of the products and their classifications and marketing plans and we tested the Company's determination of net realizable value.

For the accounting policy on the assessment of inventory write-downs, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Note 12.

#### Impairment of Property, Plant and Equipment, Prepayments, Intangible Assets and Deferred Tax Assets

As of December 31, 2017, the carrying amounts of property, plant and equipment, prepayments, intangible assets and deferred tax assets were NT\$10,798,613 thousand, NT\$3,976,719 thousand, NT\$2,315,905 thousand and NT\$8,990,648 thousand, respectively. The Company operates in a highly competitive environment. From previous periods, the current period operating conditions and earnings deteriorated significantly, indicating potential impairment of the assets. As impairment may be material to the consolidated financial statements for the year ended December 31, 2017, the evaluation of impairment was deemed to be a key audit matter.

The audit procedures performed in respect of the Company's assessment of assets for impairment included the following:

1. We obtained an understanding of the procedures and controls performed by management in assessing the impairment of assets.
2. We evaluated whether the assessment performed by management considered the operating conditions and the industry situation.
3. We evaluated the reasonableness of comparable information, discount rate and recovery rate used in the report of external expert.

For the accounting policy on the impairment of property, plant and equipment, prepayments, intangible assets and deferred tax assets, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Notes 13, 17, 19 and 27.

#### Revenue Recognition

According to the accounting policy stated in Note 4, revenue from the sale of goods is recognized when the significant risks and ownership are transferred to the buyers. Considering that some trade receivables have become overdue indicating credit risk in customers, sales revenue may need stricter validation. Because of the significance of sales revenue, revenue recognition was deemed to be a key audit matter.

We have obtained necessary understanding and have verified the accounting policy and the design and implementation of internal controls with respect to the Company's revenue recognition. We checked compliance with the accounting policy on revenue recognition by reviewing the relevant contracts. For ensuring the Company's compliance with IAS 18, samples from the recognized revenue have been selected to verify if the conditions of revenue recognition were met.

#### **Other Matters**

We have also audited the parent company only financial statements of HTC Corporation as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

#### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including management and supervisors, are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in Taiwan, the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in Taiwan, the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Wen-Yea, Shyu and Kwan-Chung, Lai.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 25, 2018

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 accepted in Taiwan, the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in Taiwan, the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in Taiwan, the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' 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 Taiwan, the Republic of China were not translated into English.*

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 10,443,227	16	\$ 30,080,217	29
Financial assets at fair value through profit or loss - current (Notes 7 and 32)	65,199	-	143,642	-
Available-for-sale financial assets - current (Note 32)	312,106	-	199,344	-
Debt investments with no active market - current (Note 32)	-	-	8,067	-
Trade receivables, net (Notes 11 and 33)	8,537,096	13	15,961,835	15
Other receivables (Note 11)	103,497	-	168,526	-
Current tax assets (Note 27)	131,901	-	184,817	-
Inventories (Note 12)	7,381,426	11	14,163,571	14
Prepayments (Note 13)	1,742,986	3	1,833,499	2
Non-current assets held for sale (Note 14)	1,647,763	3	-	-
Other current financial assets (Notes 10 and 34)	7,988,363	12	5,750,450	6
Other current assets	135,821	-	68,414	-
Total current assets	<u>38,489,385</u>	<u>58</u>	<u>68,562,382</u>	<u>66</u>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets - non-current (Note 32)	91	-	86	-
Financial assets measured at cost - non-current (Notes 9 and 32)	3,187,240	5	3,363,736	3
Debt investments with no active market - non-current (Note 32)	-	-	25,009	-
Investments accounted for using equity method (Note 16)	413,120	1	531,445	1
Property, plant and equipment (Notes 17 and 33)	10,798,613	16	12,025,496	12
Investment properties, net (Note 18)	-	-	1,527,001	1
Intangible assets (Note 19)	2,315,441	3	3,878,356	4
Deferred tax assets (Note 27)	8,990,648	14	8,957,876	9
Refundable deposits (Note 32)	139,016	-	1,501,480	1
Net defined benefit asset - non-current (Note 23)	18,119	-	40,439	-
Other non-current assets (Note 13)	2,233,733	3	2,735,876	3
Total non-current assets	<u>28,096,021</u>	<u>42</u>	<u>34,586,800</u>	<u>34</u>
<b>TOTAL</b>	<u>\$ 66,585,406</u>	<u>100</u>	<u>\$ 103,149,182</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 32)	\$ 75,184	-	\$ 133,420	-
Note and trade payables (Notes 20 and 33)	14,569,222	22	26,247,728	26
Other payables (Note 21)	11,681,890	18	18,348,734	18
Current tax liabilities (Note 27)	253,240	-	155,651	-
Provisions - current (Note 22)	3,377,201	5	3,384,311	3
Other current liabilities (Note 21)	2,850,713	4	3,004,432	3
Total current liabilities	<u>32,807,450</u>	<u>49</u>	<u>51,274,276</u>	<u>50</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Note 27)	47,147	-	81,294	-
Guarantee deposits received (Note 32)	5,681	-	22,106	-
Total non-current liabilities	<u>52,828</u>	<u>-</u>	<u>103,400</u>	<u>-</u>
Total liabilities	<u>32,860,278</u>	<u>49</u>	<u>51,377,676</u>	<u>50</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 24)</b>				
Share capital - ordinary shares	8,208,261	12	8,220,087	8
Capital surplus	15,551,491	24	15,614,641	15
Retained earnings				
Legal reserve	18,297,655	27	18,297,655	18
(Accumulated deficits) unappropriated earnings	(6,093,403)	(9)	10,841,425	10
Other equity	(2,268,428)	(3)	(1,202,302)	(1)
Total equity attributable to owners of the parent	33,695,576	51	51,771,506	50
<b>NON-CONTROLLING INTERESTS</b>	<u>29,552</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity	<u>33,725,128</u>	<u>51</u>	<u>51,771,506</u>	<u>50</u>
<b>TOTAL</b>	<u>\$ 66,585,406</u>	<u>100</u>	<u>\$ 103,149,182</u>	<u>100</u>

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

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 8, 25 and 33)	\$ 62,119,814	100	\$ 78,161,158	100
OPERATING COST (Notes 12, 23, 26 and 33)	<u>60,780,122</u>	<u>98</u>	<u>68,726,567</u>	<u>88</u>
GROSS PROFIT	<u>1,339,692</u>	<u>2</u>	<u>9,434,591</u>	<u>12</u>
OPERATING EXPENSES (Notes 23, 26 and 33)				
Selling and marketing	4,792,893	8	8,861,758	11
General and administrative	3,532,107	5	4,223,697	6
Research and development	<u>10,440,209</u>	<u>17</u>	<u>10,957,200</u>	<u>14</u>
Total operating expenses	<u>18,765,209</u>	<u>30</u>	<u>24,042,655</u>	<u>31</u>
OPERATING LOSS	<u>(17,425,517)</u>	<u>(28)</u>	<u>(14,608,064)</u>	<u>(19)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 26)	673,103	1	643,078	1
Other gains and losses (Notes 8, 14, 17 and 26)	(85,851)	-	3,448,618	4
Finance costs	(33,315)	-	(5,298)	-
Share of the profit or loss of associates and joint venture (Note 16)	<u>(87,255)</u>	<u>-</u>	<u>(62,282)</u>	<u>-</u>
Total non-operating income and expenses	<u>466,682</u>	<u>1</u>	<u>4,024,116</u>	<u>5</u>
LOSS BEFORE INCOME TAX	(16,958,835)	(27)	(10,583,948)	(14)
INCOME TAX BENEFIT (Note 27)	<u>38,476</u>	<u>-</u>	<u>23,845</u>	<u>-</u>
LOSS FOR THE YEAR	<u>(16,920,359)</u>	<u>(27)</u>	<u>(10,560,103)</u>	<u>(14)</u>
OTHER COMPREHENSIVE INCOME AND LOSS, NET OF INCOME TAX				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans (Note 23)	(33,129)	-	(53,981)	-
Income tax relating to items that will not be reclassified to profit or loss (Note 27)	<u>4,014</u>	<u>-</u>	<u>6,532</u>	<u>-</u>
	<u>(29,115)</u>	<u>-</u>	<u>(47,449)</u>	<u>-</u>

(Continued)



# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2017		2016	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	\$ (1,401,328)	(2)	\$ (2,254,715)	(3)
Unrealized gain (loss) on available-for-sale financial assets	<u>131,392</u>	<u>-</u>	<u>(153,449)</u>	<u>-</u>
	<u>(1,269,936)</u>	<u>(2)</u>	<u>(2,408,164)</u>	<u>(3)</u>
Other comprehensive loss for the year, net of income tax	<u>(1,299,051)</u>	<u>(2)</u>	<u>(2,455,613)</u>	<u>(3)</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>\$ (18,219,410)</u>	<u>(29)</u>	<u>\$ (13,015,716)</u>	<u>(17)</u>
<b>NET LOSS FOR THE YEAR ATTRIBUTABLE TO</b>				
Owners of the parent	\$ (16,905,713)	(27)	\$ (10,560,103)	(14)
Non-controlling interests	<u>(14,646)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (16,920,359)</u>	<u>(27)</u>	<u>\$ (10,560,103)</u>	<u>(14)</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO</b>				
Owners of the parent	\$ (18,205,286)	(29)	\$ (13,015,716)	(17)
Non-controlling interests	<u>(14,124)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (18,219,410)</u>	<u>(29)</u>	<u>\$ (13,015,716)</u>	<u>(17)</u>
<b>LOSS PER SHARE (Note 28)</b>				
Basic	<u>\$ (20.58)</u>		<u>\$ (12.81)</u>	

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

(Concluded)

## HTC CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										
	Share Capital Ordinary Shares	Capital Surplus	Retained Earnings		Other Equity			Treasury Shares	Total	Non- controlling Interests	Total Equity
			Legal Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for- sale Financial Assets	Unearned Employee Benefit				
BALANCE, JANUARY 1, 2016	\$ 8,318,695	\$ 15,505,853	\$ 18,297,655	\$ 21,782,432	\$ 1,473,417	\$ (13,633)	\$ (371,369)	\$ (200,955)	\$ 64,792,095	\$ -	\$ 64,792,095
Net loss for the year ended December 31, 2016	-	-	-	(10,560,103)	-	-	-	-	(10,560,103)	-	(10,560,103)
Other comprehensive income and loss for the year ended December 31, 2016	-	-	-	(47,449)	(2,254,715)	(153,449)	-	-	(2,455,613)	-	(2,455,613)
Buy-back of treasury shares	-	-	-	-	-	-	-	(436,869)	(436,869)	-	(436,869)
Retirement of treasury shares	(111,600)	(192,769)	-	(333,455)	-	-	-	637,824	-	-	-
Share-based payments	<u>12,992</u>	<u>301,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,447</u>	<u>-</u>	<u>431,996</u>	<u>-</u>	<u>431,996</u>
BALANCE, DECEMBER 31, 2016	8,220,087	15,614,641	18,297,655	10,841,425	(781,298)	(167,082)	(253,922)	-	51,771,506	-	51,771,506
Net loss for the year ended December 31, 2017	-	-	-	(16,905,713)	-	-	-	-	(16,905,713)	(14,646)	(16,920,359)
Other comprehensive income and loss for the year ended December 31, 2017	-	-	-	(29,115)	(1,401,850)	131,392	-	-	(1,299,573)	522	(1,299,051)
Issuance of stock from exercise of employee stock options	100	445	-	-	-	-	-	-	545	-	545
Share-based payments	(11,926)	(63,595)	-	-	-	-	204,332	-	128,811	-	128,811
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,676</u>	<u>43,676</u>
BALANCE, DECEMBER 31, 2017	<u>\$ 8,208,261</u>	<u>\$ 15,551,491</u>	<u>\$ 18,297,655</u>	<u>\$ (6,093,403)</u>	<u>\$ (2,183,148)</u>	<u>\$ (35,690)</u>	<u>\$ (49,590)</u>	<u>\$ -</u>	<u>\$ 33,695,576</u>	<u>\$ 29,552</u>	<u>\$ 33,725,128</u>

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

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	\$ (16,958,835)	\$ (10,583,948)
Adjustments for:		
Depreciation expenses	1,006,481	1,752,322
Amortization expenses	1,386,637	1,639,516
Bad debt (reversed) expense	(362,870)	1,175,179
Finance costs	33,315	5,298
Interests income	(283,574)	(382,550)
Dividend income	(47,284)	(138,761)
Compensation costs of employee share-based payments	128,811	431,996
Share of the profit or loss of associates and joint venture	87,255	62,282
Net loss (gain) on disposal of property, plant and equipment	80,397	(3,196,381)
Net gain on sale of investments	(24,305)	-
Impairment loss on financial assets	109,779	-
Impairment loss on non-financial assets	6,048,636	2,054,453
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	20,207	48,727
Decrease in trade receivables	7,787,609	2,857,064
Decrease in other receivables	77,814	312,686
Decrease in inventories	1,068,702	2,918,208
Decrease in prepayments	90,513	2,567,469
(Increase) decrease in other current assets	(67,407)	26,197
Decrease in other non-current assets	396,101	1,993,672
Decrease in note and trade payables	(11,678,506)	(3,350,657)
Decrease in other payables	(6,662,537)	(6,574,405)
Decrease in provisions	(7,110)	(2,607,947)
Decrease in other current liabilities	<u>(1,595,625)</u>	<u>(685,331)</u>
Cash used in operations	(19,365,796)	(9,674,911)
Interest received	280,246	336,626
Interest paid	(33,315)	(5,298)
Income tax return (paid)	<u>109,418</u>	<u>(275,929)</u>
Net cash used in operating activities	<u>(19,009,447)</u>	<u>(9,619,512)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments to acquire debt investment with no active market	-	(24,548)
Payments to acquire financial assets measured at cost	(218,734)	(203,283)
Proceeds from disposal of financial assets measured at cost	91,107	-
Acquisition of associates	(6,019)	(363,754)
Proceeds from disposal of investments accounted for using equity method	-	182,579
Net cash inflow on acquisition of subsidiaries	5,974	-
Payments for non-current assets held for sale	(3,830)	-
Proceeds from disposal of non-current assets held of sale	-	6,060,000
Payments for property, plant and equipment	(262,375)	(601,427)

(Continued)

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
Proceeds from disposal of property, plant and equipment	\$ 17,766	\$ 2,935,283
Increase in advance receipts - disposal of property	1,388,243	-
Decrease in refundable deposits	1,362,464	78,862
Payments for intangible assets	(566)	(75,455)
Increase in other current financial assets	(2,237,913)	(1,650,160)
Dividend received	<u>47,284</u>	<u>83,844</u>
Net cash generated from investing activities	<u>183,401</u>	<u>6,421,941</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Refund of guarantee deposits received	(16,425)	(8,053)
Proceeds from exercise of employee stock options	545	-
Buy-back of treasury shares	<u>-</u>	<u>(436,869)</u>
Net cash used in financing activities	<u>(15,880)</u>	<u>(444,922)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<u>(795,064)</u>	<u>(1,624,089)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(19,636,990)	(5,266,582)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	<u>30,080,217</u>	<u>35,346,799</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<u>\$ 10,443,227</u>	<u>\$ 30,080,217</u>

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

(Concluded)

# HTC CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

---

### 1. ORGANIZATION AND OPERATIONS

HTC Corporation (HTC) was incorporated on May 15, 1997 under the Company Law of Taiwan, the Republic of China. HTC and its subsidiaries (collectively referred to as the “Group” or the “Company”) are engaged in 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 depository receipts.

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by HTC’s Board of Directors and authorized for issue on March 25, 2018.

### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Company’s accounting policies, except for the following:

#### Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the Board of Directors or president serves as the chairman of the Board of Directors or the president, or is the spouse or second immediate family of the chairman of the Board of Directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Company has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Company’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions will be enhanced when the above amendments are retrospectively applied in 2017, please refer to Note 33.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

<u>New, Amended or Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

- 1) IFRS 9 “Financial Instruments”

Classification, measurement and impairment of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Company’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

- b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss. Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.

Besides this, unlisted shares measured at cost will be measured at fair value instead.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Company elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets on January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Financial assets at fair value through profit or loss - current	\$ 65,199	\$ -	\$ 65,199
Financial assets at fair value through other comprehensive income - current	-	312,106	312,106
Financial assets at fair value through profit or loss - non-current	-	131,742	131,742
Financial assets at fair value through other comprehensive income - non-current	-	3,024,657	3,024,657
Available-for-sale financial assets - current	312,106	(312,106)	-
Available-for-sale financial assets - non-current	91	(91)	-
Financial assets measured at amortized cost - non-current	3,187,240	<u>(3,187,240)</u>	-
		<u>\$ (30,932)</u>	
Accumulated deficits	(6,093,403)	\$ 104,732	(5,988,671)
Other equity	(2,268,428)	<u>(135,664)</u>	(2,404,092)
		<u>\$ (30,932)</u>	

#### Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way the hedging cost of derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

#### 2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

When applying IFRS 15, the Company recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Company satisfies a performance obligation.



The Company assessed that the application of IFRS 15 would not have material impact on the Company's financial position and financial performance except for the above changes of the accounting policies.

3) IFRIC 22“Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Company will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation. The Company assessed that the application of IFRIC 22 would not have material impact on the Company's financial position and financial performance.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company assessed that the application of other standards and interpretations would not have material impact on the Company's financial position and financial performance.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

<u>New, Amended or Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

#### 1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

#### 2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

The Company may elect to apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

## **4. SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of Compliance**

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by FSC.

## **Basis of Preparation**

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are 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
- c. Level 3 inputs are unobservable inputs for the asset or liability.

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.

## **Classification of Current and Non-current Assets and Liabilities**

Current assets include:

- a. Assets held primarily for trading purposes;
- b. Assets to be realized within twelve months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities are:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Aforementioned assets and liabilities that are not classified as current are classified as non-current.

## **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the HTC and the entities controlled by the HTC (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition 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 into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

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 Company.

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 any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Company accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

See Note 15 for the detailed information of subsidiaries (including the percentage of ownership and main business).

## **Business Combinations**

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

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 over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, 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, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

## **Foreign Currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) 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. Exchange differences on monetary items arising from settlement or translation 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 disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

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 the owners of the Company and 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, or a partial disposal of an interest in a joint venture or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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 is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income 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.

## **Inventories**

Inventories consist of raw materials, 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 and Joint Ventures**

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. Joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are 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 and joint venture. The Company also recognizes the changes in the equity of associates and joint venture attributable to the Company.

When the Company subscribes for additional new shares of the associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint venture. The Company records such a difference as an adjustment to investments accounted for by the equity method, with a corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. 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 and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate and joint venture), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

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 and a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. 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 entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate and the joint venture. 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 and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture 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 and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Company' consolidated financial statements only to the extent of interests in the associate and the joint venture that are not related to the Company.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. 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.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

### **Investment Properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included 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, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. 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 is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## **Intangible Assets**

### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. 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 measured at cost less accumulated impairment loss.

### Intangible assets acquired in a business combination

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

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, excluding goodwill, 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.

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. 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, with the resulting impairment loss recognized in profit or loss.



When an impairment loss subsequently is reversed, 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.

### **Non-current Assets Held for Sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

### **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

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

#### a. Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

##### 1) Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at fair value through profit or loss when the financial assets are either held for trading or it is designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss 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
- The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

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 32.

Investments in equity instruments under financial assets at FVTPL 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 subsequently measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. The financial assets are remeasured at fair value if they can be reliably measured at fair value in a subsequent period. The difference between the carrying amount and the fair value is recognized in profit or loss.

## 2) Available-for-sales (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.

AFS assets are stated at fair value. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency exchange 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 that 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.

Available-for-sale equity investments that do not have a quoted 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 loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

## 3) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent, debt investments with no active market, other current financial assets, and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

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 financial assets carried at amortized cost, such as trade receivables and other 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 of 60 days, 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 includes significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization and 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 and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, 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 except for uncollectible trade receivables and other receivables that are written off against the allowance account.

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.

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 in and deducted directly from 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:

Financial liabilities at fair value through profit or loss (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 may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and 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; or
- The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

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 and dividend paid on the financial liability. Fair value is determined in the manner described in Note 32.

b. Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, 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, including foreign exchange forward contracts.

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, embedded derivatives and non-derivatives in respect of foreign currency risk, as either cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting.

Cash flow hedges

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. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. 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, including those arising from contractual obligation specified in service concession arrangement to maintain or restore infrastructure before it is handed over to the grantor, are measured at the best estimate of the discounted cash flows 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 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.

Specifically, sales of goods are recognized when goods are delivered and title has been passed.

## **Employee Benefits**

### Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

### Retirement benefits

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

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and net interest on the net defined benefit liability (asset)) are recognized as employee benefits expense in the period they occur. Rereasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

### Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that rereasurement is recognized in profit or loss.

### Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

## **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 capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the share options granted vest immediately.

Restricted shares for employees are recognized as an unearned employee's bonus on the date of grant, with a corresponding increase in capital surplus - restricted shares for employees.

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 capital surplus - employee share options and capital surplus - restricted shares for employees.

## Taxation

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

### a. Current tax

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

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, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures 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. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized 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 Share**

When the Company acquires its outstanding shares that have not been disposed or retired, treasury share is stated at cost and shown as a deduction in shareholders' 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 share 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 share transactions, and the remainder, if any, debited to retained earnings. The carrying value of treasury share is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Company's treasury share is retired, the treasury share 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 share 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 share transactions, and the remainder, if any, debited to retained earnings. The sum of the par value and premium on treasury share in excess of its carrying value should be credited to capital surplus from the same class of treasury share transactions.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, 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 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.

### **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 December 31, 2017 and 2016, the carrying amounts of accrued marketing and advertising expenses were NT\$5,964,240 thousand and NT\$9,791,579 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 December 31, 2017 and 2016, the carrying amounts of allowances for doubtful debts were NT\$3,901,541 thousand and NT\$4,187,999 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.

Impairment loss on tangible and intangible assets other than goodwill recognized were NT\$444,972 thousand and NT\$12,595 thousand for the years ended December 31, 2017 and 2016, respectively.

d. 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 December 31, 2017 and 2016, the carrying amounts of inventories were NT\$7,381,426 thousand and NT\$14,163,571 thousand, respectively.

e. 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 December 31, 2017 and 2016, the carrying amounts of deferred tax assets were NT\$8,990,648 thousand and NT\$8,957,876 thousand, respectively.

f. 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 December 31, 2017 and 2016, the carrying amounts of warranty provision were NT\$2,795,933 thousand and NT\$3,010,969 thousand, respectively.

## 6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 1,901	\$ 1,811
Checking accounts and demand deposits	8,502,868	24,722,314
Time deposits (with original maturities less than three months)	<u>1,938,458</u>	<u>5,356,092</u>
	<u>\$ 10,443,227</u>	<u>\$ 30,080,217</u>

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Bank balance	0.01%-0.59%	0.01%-0.62%

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial assets held for trading</u>		
Derivatives financial assets (not under hedge accounting)		
Foreign exchange contracts	<u>\$ 65,199</u>	<u>\$ 143,642</u>
<u>Financial liabilities held for trading</u>		
Derivatives financial liabilities (not under hedge accounting)		
Foreign exchange contracts	<u>\$ 75,184</u>	<u>\$ 133,420</u>

The Company entered into forward exchange contracts to manage exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities. At the end of the reporting period, outstanding forward exchange contracts not under hedge accounting were as follows:

### Forward Exchange Contracts

<u>December 31, 2017</u>	<b>Buy/Sell</b>	<b>Currency</b>	<b>Maturity Date</b>	<b>Notional Amount (In Thousands)</b>
Foreign exchange contracts	Sell	SGD/USD	2018.01.03	SGD 3,000
Foreign exchange contracts	Sell	JPY/USD	2018.01.10-2018.02.14	JPY 4,100,000
Foreign exchange contracts	Sell	GBP/USD	2018.01.19	GBP 3,000
Foreign exchange contracts	Sell	CAD/USD	2018.01.26	CAD 3,500
Foreign exchange contracts	Sell	EUR/USD	2018.01.10-2018.01.19	EUR 8,000
Foreign exchange contracts	Sell	AUD/USD	2018.02.09	AUD 1,000
Foreign exchange contracts	Buy	RMB/USD	2018.01.12-2018.02.09	RMB 750,648
Foreign exchange contracts	Buy	USD/NTD	2018.01.10-2018.03.14	USD 440,500
Foreign exchange contracts	Buy	JPY/USD	2018.01.19	JPY 2,818,335
Foreign exchange contracts	Buy	EUR/USD	2018.01.19-2018.01.26	EUR 20,000
Foreign exchange contracts	Buy	AUD/USD	2018.02.09	AUD 10,000

(Continued)

<u>December 31, 2016</u>	<b>Buy/Sell</b>	<b>Currency</b>	<b>Maturity Date</b>	<b>Notional Amount (In Thousands)</b>
Foreign exchange contracts	Sell	USD/NTD	2017.01.06-2017.01.25	USD 120,000
Foreign exchange contracts	Sell	EUR/USD	2017.01.06	EUR 40,000
Foreign exchange contracts	Sell	JPY/USD	2017.01.06-2017.01.25	JPY 5,085,622
Foreign exchange contracts	Sell	GBP/USD	2017.01.06-2017.01.20	GBP 6,000
Foreign exchange contracts	Buy	RMB/USD	2017.01.06-2017.01.25	RMB 926,817
Foreign exchange contracts	Buy	CAD/USD	2017.01.11-2017.01.25	CAD 5,000
Foreign exchange contracts	Buy	USD/NTD	2017.01.06-2017.02.02	USD 387,500
Foreign exchange contracts	Buy	SGD/USD	2017.01.06-2017.01.25	SGD 252,579
Foreign exchange contracts	Buy	AUD/USD	2017.01.06-2017.01.11	AUD 4,700

(Concluded)

## 8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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.

Gains and losses of hedging instruments were included in the following line items in the consolidated statements of comprehensive income:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Revenues	\$ (4,389)	\$ (40,299)
Other gains and losses	<u>3,538</u>	<u>2,056</u>
	<u>\$ (851)</u>	<u>\$ (38,243)</u>

## 9. FINANCIAL ASSETS MEASURED AT COST

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Domestic unlisted equity investment	\$ 626,281	\$ 643,961
Overseas unlisted equity investment	1,779,994	2,013,101
Overseas unlisted mutual funds	649,223	706,674
Derivative financial instruments - convertible bonds	116,226	-
Derivative financial instruments - overseas warrants	<u>15,516</u>	<u>-</u>
	<u>\$ 3,187,240</u>	<u>\$ 3,363,736</u>
Classified according to financial asset measurement categories		
Financial assets at fair value through profit or loss	\$ 131,742	\$ -
Available-for-sale financial assets	<u>3,055,498</u>	<u>3,363,736</u>
	<u>\$ 3,187,240</u>	<u>\$ 3,363,736</u>

Management believed that the above unlisted equity investments and mutual funds held by the Company, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore, they were measured at cost less impairment, if any, at the end of reporting period.

For the year ended December 31, 2017, the Company determined that the recoverable amounts of financial assets measured at cost were less than its carrying amounts, and thus recognized an impairment loss of NT\$109,779 thousand classified as other gains and losses, please refer to Note 26.

#### 10. OTHER CURRENT FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Time deposits with original maturities more than three months	\$ 7,988,363	\$ 5,750,450

The market rate intervals of time deposits with original maturities more than three months at the end of the reporting period were as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Time deposits with original maturities more than three months	1.2%-2.68%	0.7%-2.03%

For details of pledged other current financial assets, please refer to Note 34.

#### 11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Trade and overdue receivables</u>		
Trade receivables	\$ 9,023,748	\$ 16,818,037
Trade receivables - related parties	22,400	15,720
Overdue receivables	1,840,947	1,840,947
Less: Allowances for impairment loss	(509,052)	(871,922)
Less: Allowances for impairment loss - overdue receivables	<u>(1,840,947)</u>	<u>(1,840,947)</u>
	<u>\$ 8,537,096</u>	<u>\$ 15,961,835</u>
Current	\$ 8,537,096	\$ 15,961,835
Non-current	<u>-</u>	<u>-</u>
	<u>\$ 8,537,096</u>	<u>\$ 15,961,835</u>
<u>Other receivables</u>		
Receivables from disposal of investments	\$ 1,326,104	\$ 1,260,795
Interest receivables	248,786	234,355
VAT refund receivables	38,350	113,839
Others	41,799	34,667
Less: Allowances for impairment loss	<u>(1,551,542)</u>	<u>(1,475,130)</u>
	<u>\$ 103,497</u>	<u>\$ 168,526</u>

(Continued)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Current - other receivables	\$ 103,497	\$ 168,526
Non-current - other receivables	<u>-</u>	<u>-</u>
	<u>\$ 103,497</u>	<u>\$ 168,526</u>

(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. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. 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 impairment loss 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 except for single major customer. The Company will evaluate the level of credit risk periodically and reconcile the receivables in order to control the credit condition of the single major customer.

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

Trade receivables aged over one year were reclassified as overdue receivables which was recognized as long-term receivables.

### Aging of trade receivables

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
1-90 days	\$ 244,443	\$ 2,120,237
91-180 days	63,613	445,727
Over 181 days	<u>340,280</u>	<u>323,945</u>
	<u>\$ 648,336</u>	<u>\$ 2,889,909</u>

The above aging schedule was based on the past due days from end of credit term.

Aging of impaired trade receivables

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
1-90 days	\$ 139,284	\$ 1,887,581
91-180 days	-	130,406
Over 181 days	-	-
	<u>\$ 139,284</u>	<u>\$ 2,017,987</u>

The above aging of trade receivables after deducting the allowance for impairment loss is presented based on the past due days from end of credit term.

The movements of the allowance for doubtful trade receivables and overdue receivables were as follows:

Movement in the allowances for doubtful debts

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of the year	\$ 2,712,869	\$ 3,016,914
Less: Impairment loss reversed	(362,870)	(299,951)
Less: Amounts written off during the year as uncollectable	-	(4,025)
Less: Effect of foreign currency exchange differences	-	(69)
	<u>\$ 2,349,999</u>	<u>\$ 2,712,869</u>

**Other Receivables**

Receivable from disposal of investments is derived from sale of shares of Saffron Media Group Ltd. in 2013. According to the agreement, the principle and interest will be received in full in September 2018 and could be repaid by the buyer in whole or in part, at any time.

Others were primarily prepayments on behalf of vendors or customers and grants from suppliers.

The movements of the allowance for doubtful other receivables were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 1,475,130	\$ -
Add: Impairment loss recognized	-	1,475,130
Add: Effect of foreign currency exchange differences	<u>76,412</u>	<u>-</u>
	<u>\$ 1,551,542</u>	<u>\$ 1,475,130</u>

## 12. INVENTORIES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Finished goods	\$ 1,602,962	\$ 2,468,223
Work-in-process	124,318	233,952
Semi-finished goods	1,094,183	2,168,606
Raw materials	4,403,010	9,125,604
Inventory in transit	<u>156,953</u>	<u>167,186</u>
	<u>\$ 7,381,426</u>	<u>\$ 14,163,571</u>

The cost of inventories recognized as operation costs for the years ended December 31, 2017 and 2016 included inventory write-downs of NT\$5,713,443 thousand and NT\$2,041,858 thousand, respectively.

## 13. PREPAYMENTS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Royalty	\$ 2,633,750	\$ 3,109,677
Net input VAT	480,516	727,750
Prepaid equipment	52,744	75,954
Prepayments to suppliers	9,422	17,431
Land use right	-	107,732
Others	<u>800,287</u>	<u>530,831</u>
	<u>\$ 3,976,719</u>	<u>\$ 4,569,375</u>
Current	\$ 1,742,986	\$ 1,833,499
Non-current	<u>2,233,733</u>	<u>2,735,876</u>
	<u>\$ 3,976,719</u>	<u>\$ 4,569,375</u>

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 38.

The land use right was reclassified as non-current assets held for sale in March 2017. For the detail, please see Note 14.

## 14. NON-CURRENT ASSETS HELD FOR SALE

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Land and buildings held for sale	<u>\$ 1,647,763</u>	<u>\$ -</u>

On December 29, 2015, the HTC's Board of Directors resolved to sell a plot of land and buildings to Inventec Corporation for a total amount of NT\$6,060,000 thousand. The Company had completed the disposal and transferred its controlling right over the subject properties to the acquirer in February 2016. For the amount of gains and losses for disposal NT\$2,091,594 thousand, please see Note 26 for details.



On March 15, 2017, the HTC' Board of Directors passed a resolution to sell land and factory in Shanghai to Shanghai Xingbao Information Technology Co., Ltd. with an amount of RMB630,000 thousand. The trading amount of RMB315,000 thousand has been collected and recognized as advance receipts. While the transferring process has not yet been completed, the assets was recognized as non-current assets held for sale without impairment loss valued as of December 31, 2017.

## 15. SUBSIDIARIES

### a. Subsidiaries included in the consolidated financial statements

The consolidated entities as of December 31, 2017 and 2016 were as follows:

Investor	Investee	Main Businesses	% of Ownership		Remark
			2017	2016	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company and general investing activities	100.00	100.00	-
	Communication Global Certification Inc.	Import of controlled telecommunications radio-frequency devices and software services	100.00	100.00	-
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC Investment Corporation	General investing activities	100.00	100.00	-
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales services	1.00	1.00	-
	HTC I Investment Corporation	General investing activities	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	0.01	0.01	-
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	-
	HTC Investment (BVI) Corporation	General investing activities	100.00	100.00	-
	HTC VIVE Holding (BVI) Corp.	International holding company	100.00	100.00	-
	HTC VIVE Investment (BVI) Corp.	General investing activities	100.00	100.00	-
	DeepQ Holding (BVI) Corp.	International holding company	100.00	-	1)
	HTC VR Content (BVI) Corp.	"	100.00	-	3)
	HTC Smartphone (BVI) Corp.	"	100.00	-	3)
H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	100.00	100.00	-
High Tech Computer Asia Pacific Pte. Ltd.	HTC (Australia and New Zealand) PTY. Ltd.	Marketing, repair and after-sales services	100.00	100.00	-
	HTC Philippines Corporation	"	99.99	99.99	-
	PT. High Tech Computer Indonesia	"	99.00	99.00	-
	HTC (Thailand) Limited	"	100.00	100.00	-
	HTC India Private Ltd.	"	99.00	99.00	-
	HTC Malaysia Sdn. Bhd.	"	100.00	100.00	-
	HTC Communication Co., Ltd.	Manufacture and sale of smart mobile devices and after-sales services	100.00	100.00	-
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	99.99	99.99	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	-
HTC Vietnam Services One Member Limited Liability Company	HTC Vietnam Services One Member Limited Liability Company	Marketing, repair and after-sales services	100.00	100.00	-
	HTC Myanmar Company Limited	"	99.00	99.00	-
	HTC Myanmar Company Limited	"	99.00	99.00	-
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	100.00	100.00	-
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	-
HTC Communication Technologies (SH)	HTC Communication (BJ) Tech Co.	Design, research and development of application software	100.00	100.00	-
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	-
	HTC Myanmar Company Limited	Marketing, repair and after-sales services	1.00	1.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark	
			2017	2016		
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	-	
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	-	
	HTC South Eastern Europe Limited Liability Company	"	0.67	0.67	-	
	HTC Communication Solutions Mexico, S.A DE C.V.	"	1.00	1.00	-	
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	1.00	1.00	-	
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company Marketing, repair and after-sales services	100.00	100.00	-	
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	-	
	HTC Belgium BVBA/SPRL	"	100.00	100.00	-	
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	-	
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	-	
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	-	
	HTC Nordic ApS.	"	100.00	100.00	-	
	HTC Italia SRL	"	100.00	100.00	-	
	HTC Germany GmbH	"	100.00	100.00	-	
	HTC Iberia, S.L.	"	100.00	100.00	-	
	HTC Poland sp. z.o.o.	"	100.00	100.00	-	
	HTC Communication Canada, Ltd.	"	100.00	100.00	-	
	HTC Communication Sweden AB	"	100.00	100.00	-	
	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	-	
	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	-	
	HTC Communication Solutions Mexico, S.A DE C.V.	"	99.00	99.00	-	
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	99.00	99.00	-	
	HTC Czech RC s.r.o.	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	-	
	HTC EUROPE CO., LTD. HTC America Holding Inc.	HTC America Holding Inc.	International holding company	100.00	100.00	-
		HTC America Inc.	Sale of smart mobile devices	100.00	100.00	-
One & Company Design, Inc.		Design, research and development of application software	100.00	100.00	-	
HTC America Innovation Inc.		"	100.00	100.00	-	
HTC America Content Services, Inc.		Online/download media services	100.00	100.00	-	
Dashwire, Inc.		Design and management of cloud synchronization technology	100.00	100.00	-	
Inquisitive Minds, Inc.		Development and sale of digital education platform	100.00	100.00	-	
HTC VIVE Holding (BVI) Corp.	HTC VIVE TECH (BVI) Corp.	International holding company	100.00	100.00	-	
HTC VIVE TECH (BVI) Corp.	HTC VIVE TECH Corp.	Research, development and sale of virtual reality devices	100.00	100.00	-	
	HTC VIVE TECH (HK) Limited	"	100.00	-	2)	
HTC VIVE TECH (HK) Limited	HTC VIVE TECH (UK) Limited	Research, development and sale of virtual reality devices	100.00	-	2)	
	HTC VIVE TECH (Beijing)	"	100.00	-	2)	
DeepQ Holding (BVI) Corp.	DeepQ (BVI) Corp.	International holding company	100.00	-	1)	
DeepQ (BVI) Corp.	DeepQ Technology Corp.	Medical technology and health care	100.00	-	2)	
HTC Investment (BVI) Corporation	VRChat, Inc.	Development of virtual reality contents	53.16	-	4)	
VRChat, Inc.	VRChat Ca. Development Inc.	Development of virtual reality contents	100.00	-	4)	
HTC VR Content (BVI) Corp.	Uomo Vitruviano Corp.	Development of virtual reality contents	100.00	-	3)	

(Concluded)

Remark:

- 1) DeepQ Holding (BVI) Corp. and DeepQ (BVI) Corp. were incorporated in March 2017.
- 2) HTC VIVE TECH (Beijing), HTC VIVE TECH (HK) Limited, HTC VIVE TECH (UK) Limited and DeepQ Technology Corp. were incorporated in June 2017.

- 3) HTC VR Content (BVI) Corp, HTC Smartphone (BVI) Corp. and Uomo Vitruviano Corp. were incorporated in September 2017.
- 4) In August 2017, VRChat, Inc. and its subsidiary were included in consolidated financial statements for acquiring 53.16% equity interest by the Company. For details of the acquisition, please see Note 29.
- b. Subsidiary excluded from consolidated financial statements: None.
- c. Details of subsidiaries that have material non-controlling interests: None.

## 16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Investment in associates	\$ 413,120	\$ 531,445
Investment in joint ventures	<u>-</u>	<u>-</u>
	<u>\$ 413,120</u>	<u>\$ 531,445</u>

### Investments in Associates

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Unlisted equity investments</u>		
East West Artists, LLC	\$ 26,834	\$ 25,532
Steel Wool Games, Inc.	99,921	150,282
Surgical Theater, LLC	274,864	344,080
Gui Zhou Wei Ai Educational Technology Co., Ltd.	<u>11,501</u>	<u>11,551</u>
	<u>\$ 413,120</u>	<u>\$ 531,445</u>

As the end of the reporting period, the proportion of ownership and voting rights in associates held by the Company were as follows:

	<u>December 31</u>	
<b>Name of Associates</b>	<u>2017</u>	<u>2016</u>
East West Artist, LLC	30.00%	25.00%
Steel Wool Games, Inc.	49.00%	49.00%
Surgical Theater, LLC	16.68%	21.09%
Gui Zhou Wei Ai Educational Technology Co., Ltd.	25.00%	25.00%

The Company acquired 25% equity interest in East West Artists, LLC for US\$500 thousand in December 2014, and US\$500 thousand in December 2015. In May 2017, the equity interest was increased to 30% after the Company's making an additional investment of US\$200 thousand.

In July 2015, the Company acquired 11.25% equity interest in Steel Wool Games, Inc. for US\$300 thousand and such equity investment was recognized as financial assets measured at cost - non-current. In June 2016, the equity interest was increased to 49% after the Company's making an additional investment of US\$5,000 thousand. The Company's management evaluates that the Company does exercise significant influence over Steel Wool Games, Inc. and therefore the subject equity investments are classified as an associate of the Company.

In September 2015, the Company acquired 12.30% equity interest in Surgical Theater, LLC for US\$5,000 thousand and such equity investment was recognized as financial assets measured at cost - non-current. In August 2016, the equity interest was increased to 21.09% after the Company's making an additional investment of US\$6,000 thousand. In August 2017, the equity interest was decreased to 16.68% after the capital increase. The Company's management evaluates that the Company does exercise significant influence over Surgical Theater, LLC and therefore the subject equity investments are classified as an associate of the Company.

In November 2016, the Company acquired 25% equity interest in Gui Zhou Wei Ai Educational Technology Co., Ltd. for RMB2,500 thousand with a total 25% equity interest that are accounted for under the equity method.

Aggregate information of associates that are not individually material:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
The Company's share of:		
Loss from continuing operations	\$ (87,255)	\$ (36,549)
Other comprehensive income	<u>          -</u>	<u>          -</u>
Total comprehensive loss for the year	<u>\$ (87,255)</u>	<u>\$ (36,549)</u>

Investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been audited. The Company's management believes there is no material impact arising from applying the equity method accounting or the calculation of the share of profit or loss and other comprehensive income, due to the investee entities' financial statement were not audited.

### **Investments in Joint Venture**

The Company set up a subsidiary Huada Digital Corporation ("Huada"), whose main business is to provide software services, in December 2009. In October 2011, Chunghwa Telecom Co., Ltd. invested in Huada. In March 2012, Huada held a shareholders' 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 the subject equity investment under the equity method. The dissolution of Huada was approved in its shareholders' meeting held in March 2016 and the date of dissolution was set on March 31, 2016. The liquidation process had been completed on July 31, 2016.

Aggregate information of joint ventures that are not individually material:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
The Company's share of:		
Loss from continuing operations	\$ -	\$ (25,733)
Other comprehensive income	<u>          -</u>	<u>          -</u>
Total comprehensive loss for the year	<u>\$ -</u>	<u>\$ (25,733)</u>

Investments in joint ventures accounted for under the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been audited. The Company's management believes there is no material impact arising from applying the equity method accounting or the calculation of the share of profit or loss and other comprehensive income, due to the investee entities' financial statement were not audited.

## 17. PROPERTY, PLANT AND EQUIPMENT

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Carrying amounts		
Land	\$ 4,676,726	\$ 4,674,792
Buildings	5,260,727	5,473,812
Machinery and equipment	417,379	1,267,842
Other equipment	<u>443,781</u>	<u>609,050</u>
	<u>\$ 10,798,613</u>	<u>\$ 12,025,496</u>

Movements of property, plant and equipment for the years ended December 31, 2017 and 2016 were as follows:

	<b>2017</b>				
	<b>Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Cost</u>					
Balance, beginning of the year	\$ 4,674,792	\$ 7,321,116	\$ 13,614,889	\$ 2,301,452	\$ 27,912,249
Additions	-	54,833	128,364	65,462	248,659
Disposals	-	-	(743,914)	(114,964)	(858,878)
Reclassification	-	-	(59,186)	-	(59,186)
Effect of foreign currency exchange differences	<u>1,934</u>	<u>7,083</u>	<u>(38,345)</u>	<u>(32,607)</u>	<u>(61,935)</u>
Balance, end of the year	<u>4,676,726</u>	<u>7,383,032</u>	<u>12,901,808</u>	<u>2,219,343</u>	<u>27,180,909</u>
<u>Accumulated depreciation</u>					
Balance, beginning of the year	-	1,847,304	11,816,261	1,686,963	15,350,528
Depreciation expenses	-	273,928	535,827	190,790	1,000,545
Disposals	-	-	(659,429)	(100,452)	(759,881)
Reclassification	-	-	(21,013)	-	(21,013)
Effect of foreign currency exchange differences	<u>-</u>	<u>1,073</u>	<u>(30,964)</u>	<u>(19,425)</u>	<u>(49,316)</u>
Balance, end of the year	<u>-</u>	<u>2,122,305</u>	<u>11,640,682</u>	<u>1,757,876</u>	<u>15,520,863</u>
<u>Accumulated impairment</u>					
Balance, beginning of the year	-	-	530,786	5,439	536,225
Impairment loss	-	-	321,138	14,055	335,193
Disposals	-	-	(831)	(3)	(834)
Reclassification	-	-	(7,868)	-	(7,868)
Effect of foreign currency exchange differences	<u>-</u>	<u>-</u>	<u>522</u>	<u>(1,805)</u>	<u>(1,283)</u>
Balance, end of the year	<u>-</u>	<u>-</u>	<u>843,747</u>	<u>17,686</u>	<u>861,433</u>
Net book value, end of the year	<u>\$ 4,676,726</u>	<u>\$ 5,260,727</u>	<u>\$ 417,379</u>	<u>\$ 443,781</u>	<u>\$ 10,798,613</u>

	<b>2016</b>				
	<b>Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Cost</u>					
Balance, beginning of the year	\$ 6,470,507	\$ 7,361,368	\$ 13,754,405	\$ 2,507,338	\$ 30,093,618
Additions	-	272,689	158,495	122,854	554,038
Disposals	(1,771,623)	-	(33,902)	(251,263)	(2,056,788)
Reclassification	6,587	(201,433)	(11,100)	(1,173)	(207,119)
Effect of foreign currency exchange differences	(30,679)	(111,508)	(253,009)	(76,304)	(471,500)
Balance, end of the year	<u>4,674,792</u>	<u>7,321,116</u>	<u>13,614,889</u>	<u>2,301,452</u>	<u>27,912,249</u>
<u>Accumulated depreciation</u>					
Balance, beginning of the year	-	1,590,155	10,912,770	1,634,316	14,137,241
Depreciation expenses	-	269,208	1,134,773	304,421	1,708,402
Disposals	-	-	(27,075)	(199,217)	(226,292)
Reclassification	-	-	(6,443)	(547)	(6,990)
Effect of foreign currency exchange differences	-	(12,059)	(197,764)	(52,010)	(261,833)
Balance, end of the year	<u>-</u>	<u>1,847,304</u>	<u>11,816,261</u>	<u>1,686,963</u>	<u>15,350,528</u>
<u>Accumulated impairment</u>					
Balance, beginning of the year	-	-	520,963	3,284	524,247
Impairment loss	-	-	10,330	2,265	12,595
Effect of foreign currency exchange differences	-	-	(507)	(110)	(617)
Balance, end of the year	<u>-</u>	<u>-</u>	<u>530,786</u>	<u>5,439</u>	<u>536,225</u>
Net book value, end of the year	<u>\$ 4,674,792</u>	<u>\$ 5,473,812</u>	<u>\$ 1,267,842</u>	<u>\$ 609,050</u>	<u>\$ 12,025,496</u>

(Concluded)

In order to reduce the cost and to improve the operational efficiency, the Company had sold part of the land in Taoyuan in May 2016 for NT\$2,880,000 thousand and the net gain on disposal of the property was NT\$1,108,377 thousand. For the years ended December 31, 2017 and 2016, the Company determined that the carrying amounts of some of equipment were expected to be unrecoverable, and thus recognized an impairment loss of NT\$335,193 thousand and NT\$12,595 thousand classified as other gains and losses, respectively. Please refer to Note 26 for details.

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	5-50 years
Machinery and equipment	3-6 years
Other equipment	3-5 years

The major component parts of the buildings held by the Company included plants, electro-powering machinery and engineering systems, etc., which are depreciated over their estimated useful lives of 40 to 50 years, 20 years and 5 to 10 years, respectively.

There were no capitalized interests for the years ended December 31, 2017 and 2016.

## 18. INVESTMENT PROPERTIES, NET

Movement of investment properties, net for the years ended December 31, 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
<u>Cost</u>		
Balance, beginning of the year	\$ 1,829,827	\$ 1,992,798
Eliminations	(1,504)	-
Reclassification	(1,791,715)	-
Effect of foreign currency exchange differences	<u>(36,608)</u>	<u>(162,971)</u>
Balance, end of the year	<u>-</u>	<u>1,829,827</u>
<u>Accumulated depreciation</u>		
Balance, beginning of the year	302,826	284,309
Depreciation expense	5,936	43,920
Eliminations	(1,504)	-
Reclassification	(301,200)	-
Effect of foreign currency exchange differences	<u>(6,058)</u>	<u>(25,403)</u>
Balance, end of the year	<u>-</u>	<u>302,826</u>
Net book value, end of the year	<u>\$ -</u>	<u>\$ 1,527,001</u>

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	50 years
Air-conditioning	5-10 years
Others	3-5 years

The Company passed a resolution to dispose investment properties in March 2017. As of December 31, 2017, the investment properties were reclassified as non-current assets held for sale since the transferring process has not yet been completed. For the detail, please refer to Note 14.

## 19. INTANGIBLE ASSETS

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Carrying amounts		
Patents	\$ 2,154,987	\$ 3,547,151
Goodwill	67,025	-
Other intangible assets	<u>93,429</u>	<u>331,205</u>
	<u>\$ 2,315,441</u>	<u>\$ 3,878,356</u>

Movements of intangible assets for the years ended December 31, 2017 and 2016 were as follows:

	<b>2017</b>			
	<b>Patents</b>	<b>Goodwill</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<u>Cost</u>				
Balance, beginning of the year	\$ 12,197,140	\$ 684,668	\$ 1,840,154	\$ 14,721,962
Additions	-	69,186	566	69,752
Eliminations	-	-	(7,093)	(7,093)
Disposals	-	-	(38,977)	(38,977)
Effect of foreign currency exchange differences	(729,150)	(40,604)	(41,030)	(810,784)
Balance, end of the year	<u>11,467,990</u>	<u>713,250</u>	<u>1,753,620</u>	<u>13,934,860</u>
<u>Accumulated amortization</u>				
Balance, beginning of the year	8,538,904	-	1,333,403	9,872,307
Amortization expenses	1,148,841	-	237,796	1,386,637
Eliminations	-	-	(7,093)	(7,093)
Disposals	-	-	(38,977)	(38,977)
Effect of foreign currency exchange differences	(485,827)	-	(27,265)	(513,092)
Balance, end of the year	<u>9,201,918</u>	<u>-</u>	<u>1,497,864</u>	<u>10,699,782</u>
<u>Accumulated impairment</u>				
Balance, beginning of the year	111,085	684,668	175,546	971,299
Effect of foreign currency exchange differences	-	(38,443)	(13,219)	(51,662)
Balance, end of the year	<u>111,085</u>	<u>646,225</u>	<u>162,327</u>	<u>919,637</u>
Net book value, end of the year	<u>\$ 2,154,987</u>	<u>\$ 67,025</u>	<u>\$ 93,429</u>	<u>\$ 2,315,441</u>
	<b>2016</b>			
	<b>Patents</b>	<b>Goodwill</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<u>Cost</u>				
Balance, beginning of the year	\$ 12,434,890	\$ 697,203	\$ 1,785,537	\$ 14,917,630
Additions	-	-	75,455	75,455
Effect of foreign currency exchange differences	(237,750)	(12,535)	(20,838)	(271,123)
Balance, end of the year	<u>12,197,140</u>	<u>684,668</u>	<u>1,840,154</u>	<u>14,721,962</u>
<u>Accumulated amortization</u>				
Balance, beginning of the year	7,336,883	-	1,031,158	8,368,041
Amortization expenses	1,325,086	-	314,430	1,639,516
Effect of foreign currency exchange differences	(123,065)	-	(12,185)	(135,250)
Balance, end of the year	<u>8,538,904</u>	<u>-</u>	<u>1,333,403</u>	<u>9,872,307</u>

(Continued)



	<b>2016</b>			
	<b>Patents</b>	<b>Goodwill</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<u>Accumulated impairment</u>				
Balance, beginning of the year	\$ 111,085	\$ 697,203	\$ 179,857	\$ 988,145
Effect of foreign currency exchange differences	-	(12,535)	(4,311)	(16,846)
Balance, end of the year	<u>111,085</u>	<u>684,668</u>	<u>175,546</u>	<u>971,299</u>
Net book value, end of the year	<u>\$ 3,547,151</u>	<u>\$ -</u>	<u>\$ 331,205</u>	<u>\$ 3,878,356</u> (Concluded)

The Company owns patents of graphics technologies. As of December 31, 2017 and 2016, the carrying amounts of such patents were NT\$2,144,678 thousand and NT\$3,529,477 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

## 20. NOTE AND TRADE PAYABLES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Note payables	\$ 27	\$ 580
Trade payables	14,568,235	26,245,282
Trade payables - related parties	<u>960</u>	<u>1,866</u>
	<u>\$ 14,569,222</u>	<u>\$ 26,247,728</u>

The average term of payment is two to four months. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. According to the payment obligation adjusted by periodical negotiation with suppliers, it was recognized as an adjustment to operating costs or expenses by its nature.

## 21. OTHER LIABILITIES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Other payables</u>		
Accrued expenses	\$ 11,624,987	\$ 18,254,905
Payables for purchase of equipment	<u>56,903</u>	<u>93,829</u>
	<u>\$ 11,681,890</u>	<u>\$ 18,348,734</u>
<u>Other current liabilities</u>		
Advance receipts (Note 14)	\$ 2,480,454	\$ 2,397,707
Agency receipts	132,387	434,266
Others	<u>237,872</u>	<u>172,459</u>
	<u>\$ 2,850,713</u>	<u>\$ 3,004,432</u>

## Accrued Expenses

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Marketing	\$ 5,964,240	\$ 9,791,579
Salaries and bonuses	2,004,912	2,029,695
Materials and molding expenses	1,796,104	3,077,500
Services	766,310	1,196,062
Import, export and freight	181,885	651,893
Insurance	111,477	137,183
Repairs, maintenance and sundry purchase	76,785	98,773
Others	<u>723,274</u>	<u>1,272,220</u>
	<u>\$ 11,624,987</u>	<u>\$ 18,254,905</u>

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

## 22. PROVISIONS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Warranties	\$ 2,795,933	\$ 3,010,969
Provisions for contingent loss on purchase orders	<u>581,268</u>	<u>373,342</u>
	<u>\$ 3,377,201</u>	<u>\$ 3,384,311</u>

Movement of provisions for the years ended December 31, 2017 and 2016 were as follows:

	<b>2017</b>		
	<b>Warranty Provision</b>	<b>Provisions for Contingent Loss on Purchase Orders</b>	<b>Total</b>
Balance, beginning of the year	\$ 3,010,969	\$ 373,342	\$ 3,384,311
Provisions recognized	3,065,641	274,159	3,339,800
Usage	(3,268,216)	(66,233)	(3,334,449)
Effect of foreign currency exchange differences	<u>(12,461)</u>	<u>-</u>	<u>(12,461)</u>
Balance, end of the year	<u>\$ 2,795,933</u>	<u>\$ 581,268</u>	<u>\$ 3,377,201</u>

	<b>2016</b>		
	<b>Warranty Provision</b>	<b>Provisions for Contingent Loss on Purchase Orders</b>	<b>Total</b>
Balance, beginning of the year	\$ 5,314,365	\$ 677,893	\$ 5,992,258
Provisions recognized (reversed)	3,987,729	(271,104)	3,716,625
Usage	(6,256,239)	(33,447)	(6,289,686)
Effect of foreign currency exchange differences	<u>(34,886)</u>	<u>-</u>	<u>(34,886)</u>
Balance, end of the year	<u>\$ 3,010,969</u>	<u>\$ 373,342</u>	<u>\$ 3,384,311</u>

The Company provides warranty service for its customers. The warranty period varies by product and is generally one year to two years. The warranties are estimated on the basis of evaluation of the products under warranty, historical warranty-trends, 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.

## **23. 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, Communication Global Certification Inc. ("CGC") and Yoda Co., Ltd. ("Yoda") make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The Company has defined benefit plans for all qualified employees of HTC, CGC and Yoda 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\$420,872 thousand and NT\$463,504 thousand, representing the contributions made and to be made to these plans by the Company at the rates specified in the plans for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the amounts of contributions payable were NT\$76,426 thousand and NT\$80,218 thousand, respectively, the amounts were paid subsequent to the end of the reporting period.

### **Defined Benefit Plans**

The defined benefit plan adopted by HTC and CGC in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated based on the years of services and the average monthly salaries of the six months before retirement. HTC and CGC contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, HTC and CGC assess the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, HTC and CGC are required to fund the difference in one appropriation that

should be made before the end of March of the following year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); HTC and CGC has no right to influence the investment policy and strategy.

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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Present value of defined benefit obligation	\$ (581,492)	\$ (533,819)
Fair value of plan assets	<u>599,611</u>	<u>574,258</u>
Net defined benefit asset	<u>\$ 18,119</u>	<u>\$ 40,439</u>

Movements in net defined benefit asset were as follows:

	<b>Present Value of Defined Benefit Obligation</b>	<b>Fair Value of Plan Assets</b>	<b>Net Defined Benefit Asset</b>
Balance at January 1, 2016	\$ (474,875)	\$ 554,345	\$ 79,470
Current service cost	(8,751)	-	(8,751)
Net interest (expense) income	<u>(8,301)</u>	<u>10,002</u>	<u>1,701</u>
Recognized in profit or loss	<u>(17,052)</u>	<u>10,002</u>	<u>(7,050)</u>
Remeasurement			
Return on plan assets	-	(6,014)	(6,014)
Actuarial loss - changes in demographic assumptions	(20,172)	-	(20,172)
Actuarial loss - changes in financial assumptions	(18,622)	-	(18,622)
Actuarial loss - experience adjustments	<u>(9,173)</u>	<u>-</u>	<u>(9,173)</u>
Recognized in other comprehensive income	<u>(47,967)</u>	<u>(6,014)</u>	<u>(53,981)</u>
Contributions from the employer	-	22,000	22,000
Benefits paid	<u>6,075</u>	<u>(6,075)</u>	<u>-</u>
Balance at December 31, 2016	<u>(533,819)</u>	<u>574,258</u>	<u>40,439</u>
Current service cost	(11,492)	-	(11,492)
Net interest (expense) income	<u>(7,990)</u>	<u>8,765</u>	<u>775</u>
Recognized in profit or loss	<u>(19,482)</u>	<u>8,765</u>	<u>(10,717)</u>
Remeasurement			
Return on plan assets	-	(3,105)	(3,105)
Actuarial loss - changes in demographic assumptions	(59,687)	-	(59,687)
Actuarial gain - changes in financial assumptions	164	-	164
Actuarial gain - experience adjustments	<u>29,499</u>	<u>-</u>	<u>29,499</u>
Recognized in other comprehensive income	<u>(30,024)</u>	<u>(3,105)</u>	<u>(33,129)</u>
Contributions from the employer	-	21,526	21,526
Benefits paid	<u>1,833</u>	<u>(1,833)</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ (581,492)</u>	<u>\$ 599,611</u>	<u>\$ 18,119</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Operating costs	\$ 2,188	\$ 1,566
Selling and marketing expenses	957	671
General and administrative expenses	1,435	854
Research and development expenses	<u>6,137</u>	<u>3,959</u>
	<u>\$ 10,717</u>	<u>\$ 7,050</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- a. Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- b. Interest risk: A decrease in the government/corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- c. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rates	1.375%-1.500%	1.000%-1.500%
Expected rates of salary increase	2.250%-4.000%	2.250%-4.000%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would (increase) decrease as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rates		
0.25% increase	<u>\$ 20,801</u>	<u>\$ 19,120</u>
0.25% decrease	<u>\$ (21,787)</u>	<u>\$ (20,030)</u>
Expected rates of salary increase		
0.25% increase	<u>\$ (20,965)</u>	<u>\$ (19,268)</u>
0.25% decrease	<u>\$ 20,137</u>	<u>\$ 18,504</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
The expected contributions to the plan for the next year	\$ <u>20,675</u>	\$ <u>21,766</u>
The average duration of the defined benefit obligation	14.98 years	15.23 years

## 24. EQUITY

### Share Capital

#### a. Ordinary shares

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Number of shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>
Shares authorized	\$ <u>10,000,000</u>	\$ <u>10,000,000</u>
Number of shares issued and fully paid (in thousands of shares)	<u>820,826</u>	<u>822,009</u>
Shares issued	\$ <u>8,208,261</u>	\$ <u>8,220,087</u>

In July 2016, HTC issued 2,657 thousand of restricted shares amounting to NT\$26,570 thousand. For the year ended in 2016, HTC retired 1,358 thousand restricted shares for employees amounting to NT\$13,578 thousand. In February and August 2016, HTC retired 4,110 thousand and 7,050 thousand treasury shares amounting to NT\$41,100 thousand and NT\$70,500 thousand, respectively. As a result, the amount of HTC's outstanding ordinary shares as of December 31, 2016 decreased to NT\$8,220,087 thousand, divided into 822,009 thousand ordinary shares at NT\$10 par value. Every ordinary share carries one vote per share and a right to dividends.

For the year ended 2017, HTC retired 1,193 thousand restricted shares for employees amounting to NT\$11,926 thousand. In October 2017, the employee stock options have been exercised by issuing 10 thousand shares amounting to NT\$100 thousand. As a result, HTC's issued and outstanding common stock as of December 31, 2017 decreased to NT\$8,208,261 thousand, divided into 820,826 thousand ordinary shares at NT\$10 par value. Every ordinary share carries one vote per share and a right to dividends.

80,000 thousand shares of HTC's common shares authorized were reserved for the issuance of employee share options.

#### b. Global depositary receipts

In November 2003, HTC issued 14,400 thousand ordinary shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, HTC's shareholders, including Via Technologies, Inc., also issued 12,878.4 thousand ordinary 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 ordinary shares. As of December 31, 2017, there were 5,793 thousand units of GDRs redeemed, representing 23,171.9 thousand ordinary shares, and the outstanding GDRs represented 12,888.6 thousand ordinary shares or 1.57% of HTC's issued and outstanding ordinary shares.

## Capital Surplus

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Arising from issuance of ordinary shares	\$ 14,659,563	\$ 14,121,223
Arising from consolidation excess	23,288	23,288
Arising from expired stock options	186,052	84,462
<u>May not be used for any purpose</u>		
Arising from employee share options	572,369	645,111
Arising from employee restricted shares	<u>110,219</u>	<u>740,557</u>
	<u>\$ 15,551,491</u>	<u>\$ 15,614,641</u>

The capital surplus arising from shares issued in excess of par (including share premium from issuance of ordinary shares, treasury share transactions, consolidation excess and expired stock options) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

In February and August 2016, the retirement of treasury shares caused a decrease of NT\$70,715 thousand and NT\$120,988 thousand in additional paid-in capital - issuance of ordinary shares, NT\$117 thousand and NT\$199 thousand in capital surplus - consolidation excess and NT\$177 thousand and NT\$573 thousand in capital surplus - expired stock options, respectively. The excess of the carrying value of treasury shares retired over the sum of its par value and premium from issuance of ordinary share was offset against unappropriated earnings, totaling NT\$88,846 thousand and NT\$244,609 thousand, respectively.

For details of capital surplus - employee share options and employee restricted shares, please see Note 30.

### Retained Earnings and Dividend Policy

Under HTC's Articles of Incorporation, HTC should make appropriations from its net income 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 recognize or reverse special reserve return earnings.
- e. The Board of Directors shall propose allocation ratios for any remainder profit after withholding the amounts under subparagraphs a. to d. above plus any unappropriated retained earnings of previous years based on the dividend policy set forth in the Article and propose such allocation ratio at the shareholders' meeting.

As part of a high-technology industry, HTC considers its operating environment, industry developments, and long-term interests of shareholders as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals when 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.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. HTC has amended the policy of its earnings distribution as stipulated in its Articles of Incorporation in order to comply with the aforementioned law amendments with an approval from the resolution of the shareholders' meeting, and stipulated an additional policy of employees' compensation on June 24, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, see employee benefits expense section as stated in Note 26.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the HTC's capital. Legal reserve may be used to offset deficit. If HTC has no accumulated deficit and the legal reserve has exceeded 25% of its issued and outstanding capital stock, the excess may be transferred to capital stock or distributed in cash.

The appropriation of profit or loss for 2016 and 2015 had been resolved in the shareholders' meeting on June 15, 2017 and June 24, 2016, respectively.

The loss off-setting for 2017 had been proposed by HTC's board of directors on March 25, 2018. The loss off-setting for 2017 are subject to the resolution of the shareholders' meeting to be held on June 26, 2017.

Information on the earnings appropriation proposed by the HTC's Board of Directors and approved by the HTC's shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

#### Other Equity

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Exchange differences on translating foreign operations	\$ (2,183,148)	\$ (781,298)
Unrealized loss on available-for-sale financial assets	(35,690)	(167,082)
Unearned employee benefit	<u>(49,590)</u>	<u>(253,922)</u>
	<u>\$ (2,268,428)</u>	<u>\$ (1,202,302)</u>

a. Exchange differences on translating foreign operations

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

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

Unrealized gains or losses on available-for-sale financial assets represents the cumulative gains and losses arising on the revaluation of AFS financial assets 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. Unearned employee benefit

In the meeting of shareholders on June 2, 2015 and June 19, 2014, the shareholders approved a restricted stock plan for employees. See Note 30 for the information of restricted shares issued.

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of the year	\$ (253,922)	\$ (371,369)
Issuance of shares	-	(158,471)
Adjustment of turnover rate	104,517	(5,667)
Share-based payment expenses recognized	<u>99,815</u>	<u>281,585</u>
Balance, end of the year	<u>\$ (49,590)</u>	<u>\$ (253,922)</u>

**Treasury Shares**

On August 24, 2015, the HTC's Board of Directors passed a resolution to buy back 50,000 thousand common shares from the open market. The repurchase period was between August 25, 2015 and October 24, 2015, and the repurchase price ranged from NT\$35 to NT\$60 per share. If the HTC's share price was lower than this price range, HTC might continue to buy back its shares. HTC had bought back 4,110 thousand shares for NT\$200,955 thousand during the repurchase period, which were retired by the HTC's Board of Directors on February 29, 2016, and such retired shares had been properly deregistered subsequently.

On May 14, 2016, the HTC's Board of Directors passed a resolution to buy back 40,000 thousand common shares from the open market. The repurchase period was between May 16, 2016 and July 15, 2016, and the repurchase price ranged from NT\$47 to NT\$70 per share. If the HTC's share price was lower than this price range, HTC might continue to buy back its shares. HTC had bought back 7,050 thousand shares for NT\$436,869 thousand during the repurchase period which were retired by the HTC's Board of Directors on August 2, 2016, and such retired share had been properly deregistered subsequently. The related information on the treasury share transactions were as follows:

(In Thousands of Shares)

Reason to Reacquire	Number of Shares, Beginning of the Year	Addition During the Year	Reduction During the Year	Number of Shares, End of the Year
<u>For 2016</u>				
To maintain the Company's credibility and shareholders' interest	<u>4,110</u>	<u>7,050</u>	<u>11,160</u>	<u>-</u>

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.

Under the Securities and Exchange Act, HTC shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

## 25. OPERATING REVENUES

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Sale of goods	\$ 59,593,708	\$ 75,763,805
Other operating income	<u>2,526,106</u>	<u>2,397,353</u>
	<u>\$ 62,119,814</u>	<u>\$ 78,161,158</u>

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT\$(4,389) thousand and NT\$(40,299) thousand of the gain or loss on the hedging instrument that was determined to be the effective portion of the hedge to sales of goods for the years ended in 2017 and 2016, respectively.

## 26. NET LOSS FROM CONTINUING OPERATIONS AND OTHER COMPREHENSIVE INCOME AND LOSS

### a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Interest income		
Bank deposits	\$ 256,064	\$ 224,331
Other receivables	-	39,041
Other	<u>27,510</u>	<u>119,178</u>
	283,574	382,550
Dividends	47,284	138,761
Others	<u>342,245</u>	<u>121,767</u>
	<u>\$ 673,103</u>	<u>\$ 643,078</u>

### b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Net foreign exchange gain	\$ 448,977	\$ 335,783
Gain on disposal of investments	24,305	-
Ineffective portion of cash flow hedge (Note 8)	3,538	2,056
Net gain on disposal of non-current assets held for sale (Note 14)	-	2,091,594
Net (loss) gain arising from financial instruments classified as held for trading	(9,985)	10,222
Net (loss) gain on disposal of property, plant and equipment (Note 17)	(80,397)	1,104,787
Impairment loss	(444,972)	(12,595)
Other loss	<u>(27,317)</u>	<u>(83,229)</u>
	<u>\$ (85,851)</u>	<u>\$ 3,448,618</u>

Gain or loss on financial assets and liabilities held for trading was derived from forward exchange transactions. The Company entered into forward exchange transactions to manage exposures related to exchange rate fluctuations of foreign currency denominated assets and liabilities.

c. Impairment (reversal gain) loss on financial assets

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Trade receivables (included in operating expense)	\$ (362,870)	\$ (299,951)
Other receivables (included in operating expense)	-	1,475,130
Financial assets measured at cost - non-current (included in other gains and losses)	<u>109,779</u>	<u>-</u>
	<u>\$ (253,091)</u>	<u>\$ 1,175,179</u>

d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Property, plant and equipment	\$ 1,000,545	\$ 1,708,402
Investment properties	5,936	43,920
Intangible assets	<u>1,386,637</u>	<u>1,639,516</u>
	<u>\$ 2,393,118</u>	<u>\$ 3,391,838</u>
 An analysis of depreciation - by function		
Operating costs	\$ 284,026	\$ 743,267
Operating expenses	716,519	965,135
Other loss	<u>5,936</u>	<u>43,920</u>
	<u>\$ 1,006,481</u>	<u>\$ 1,752,322</u>
 An analysis of amortization - by function		
Operating costs	\$ 1,498	\$ 2,958
Operating expenses	<u>1,385,139</u>	<u>1,636,558</u>
	<u>\$ 1,386,637</u>	<u>\$ 1,639,516</u>

e. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term benefits	\$ <u>11,264,101</u>	\$ <u>11,548,402</u>
Post-employment benefits (Note 23)		
Defined contribution plans	420,872	463,504
Defined benefit plans	<u>10,717</u>	<u>7,050</u>
	<u>431,589</u>	<u>470,554</u>
Share-based payments (Note 30)		
Equity-settled share-based payments	<u>128,811</u>	<u>431,996</u>
Total employee benefits expense	<u>\$ 11,824,501</u>	<u>\$ 12,450,952</u>
 An analysis of employee benefits expense - by function		
Operating costs	\$ 2,558,357	\$ 2,977,269
Operating expenses	<u>9,266,144</u>	<u>9,473,683</u>
	<u>\$ 11,824,501</u>	<u>\$ 12,450,952</u>

In compliance with the Company Act as amended in May 2015, the shareholders held their meeting and resolved amendments to HTC's Articles of Incorporation on June 24, 2016; the amendments stipulate distribution of employees' compensation and remuneration to directors and supervisors at the rates no less than 4% and no higher than 0.25%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. No employee's compensation and remuneration to directors and supervisors were estimated as the Company reported net losses for the years ended December 31, 2017 and 2016.

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate in the subsequent year.

For any further information of the employees' compensation and remuneration to directors and supervisors approved in the meeting of board of directors in 2018 and 2017, see disclosures in the "Market Observation Post System".

f. Impairment loss on non-financial assets

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Inventories (included in operating costs)	\$ 5,713,443	\$ 2,041,858
Property, plant and equipment (included in other gains and losses)	<u>335,193</u>	<u>12,595</u>
	<u>\$ 6,048,636</u>	<u>\$ 2,054,453</u>

g. Gain or loss on foreign currency exchange

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Foreign exchange gain	\$ 5,231,847	\$ 5,475,486
Foreign exchange loss	(4,782,870)	(5,139,703)
Valuation (loss) gain arising from financial instruments classified as held for trading	(9,985)	10,222
Ineffective portion of cash flow hedge	<u>3,538</u>	<u>2,056</u>
	<u>\$ 442,530</u>	<u>\$ 348,061</u>

## 27. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax benefit recognized in profit or loss

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Current tax		
In respect of the current year	\$ 156,432	\$ 261,887
Land value increment	-	226,333
Adjustments for previous years	<u>(115,345)</u>	<u>(192,678)</u>
	<u>41,087</u>	<u>295,542</u>
Deferred tax		
In respect of the current year	<u>(79,563)</u>	<u>(319,387)</u>
Income tax benefit recognized in profit or loss	<u>\$ (38,476)</u>	<u>\$ (23,845)</u>

A reconciliation of accounting loss and income tax benefit and the applicable tax rate were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Loss before income tax	<u>\$ (16,958,835)</u>	<u>\$ (10,583,948)</u>
Income tax benefit calculated at 17%	\$ (2,883,002)	\$ (1,799,271)
Effect of expenses that were not deductible in determining taxable profit	141,195	93,130
Effect of temporary differences	1,014,610	1,850,755
Effect of loss carryforward	1,691,131	228,270
Effect of income that is exempt from taxation	-	(611,933)
Land Value Increment	-	226,333
Effect of different tax rates of subsidiaries operating in other jurisdictions	112,935	181,549
Adjustments for previous years' tax	<u>(115,345)</u>	<u>(192,678)</u>
Income tax benefit recognized in profit or loss	<u>\$ (38,476)</u>	<u>\$ (23,845)</u>

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax benefit recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Deferred tax</u>		
Recognized in current year		
Remeasurement on defined benefit plan (tax benefit)	<u>\$ (4,014)</u>	<u>\$ (6,532)</u>

c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax assets		
Tax refund receivable	<u>\$ 131,901</u>	<u>\$ 184,817</u>
Current tax liabilities		
Income tax payable	<u>\$ 253,240</u>	<u>\$ 155,651</u>

d. Deferred tax balances

Movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2017 and 2016 were as follows:

	<b>2017</b>				
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Translation Adjustment</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized royalties	\$ 370,916	\$ 33,942	\$ -	\$ -	\$ 404,858
Unrealized marketing expenses	858,920	(396,963)	-	(5,302)	456,655
Unrealized warranty expense	364,585	(50,879)	-	(1,009)	312,697
Allowance for loss on decline in value of inventory	449,998	111,526	-	(1,375)	560,149
Unrealized profit	151,256	(108,502)	-	-	42,754
Unrealized salary and welfare	93,746	(36,405)	-	(4,816)	52,525
Unrealized contingent losses on purchase orders	44,802	24,952	-	-	69,754
Others	400,395	(83,347)	-	327	317,375
Loss carryforwards	<u>6,223,258</u>	<u>554,274</u>	<u>-</u>	<u>(3,651)</u>	<u>6,773,881</u>
	<u>\$ 8,957,876</u>	<u>\$ 48,598</u>	<u>\$ -</u>	<u>\$ (15,826)</u>	<u>\$ 8,990,648</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Financial instruments at FVTPL	\$ 1,227	\$ (1,227)	\$ -	\$ -	\$ -
Defined benefit plans	4,678	1,272	(4,014)	-	1,936
Others	<u>75,389</u>	<u>(31,010)</u>	<u>-</u>	<u>832</u>	<u>45,211</u>
	<u>\$ 81,294</u>	<u>\$ (30,965)</u>	<u>\$ (4,014)</u>	<u>\$ 832</u>	<u>\$ 47,147</u>
<u>2016</u>					
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Translation Adjustment</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized royalties	\$ 675,764	\$ (304,848)	\$ -	\$ -	\$ 370,916
Unrealized marketing expenses	1,323,293	(449,046)	-	(15,327)	858,920
Unrealized warranty expense	625,919	(257,367)	-	(3,967)	364,585
Allowance for loss on decline in value of inventory	411,036	44,459	-	(5,497)	449,998
Unrealized profit	258,976	(107,720)	-	-	151,256
Unrealized salary and welfare	133,091	(33,485)	-	(5,860)	93,746
Unrealized contingent losses on purchase orders	81,350	(36,548)	-	-	44,802
Others	554,563	(152,611)	-	(1,557)	400,395
Loss carryforwards	<u>4,635,330</u>	<u>1,611,691</u>	<u>-</u>	<u>(23,763)</u>	<u>6,223,258</u>
	<u>\$ 8,699,322</u>	<u>\$ 314,525</u>	<u>\$ -</u>	<u>\$ (55,971)</u>	<u>\$ 8,957,876</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Financial instruments at FVTPL	\$ 7,074	\$ (5,847)	\$ -	\$ -	\$ 1,227
Defined benefit plans	9,440	1,770	(6,532)	-	4,678
Others	<u>80,837</u>	<u>(785)</u>	<u>-</u>	<u>(4,663)</u>	<u>75,389</u>
	<u>\$ 97,351</u>	<u>\$ (4,862)</u>	<u>\$ (6,532)</u>	<u>\$ (4,663)</u>	<u>\$ 81,294</u>

- e. Amounts of deductible temporary differences, unused carryforward and unused tax credits for which deferred tax assets have not been recognized

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Loss carryforward	<u>\$ 49,484,247</u>	<u>\$ 35,056,888</u>
Deductible temporary differences	<u>\$ 21,422,629</u>	<u>\$ 14,239,006</u>

- f. Information about unused loss carry-forward and tax-exemption

Loss carryforwards as of December 31, 2017 comprised of:

<b>Remaining Carrying</b>	<b>Expiry Year</b>
\$ 2,198,532	2018
778,886	2019
1,156,287	2020
1,061,080	2021
1,018,934	2022
6,979,331	2023
9,428,974	2024
21,829,694	2025
22,320,838	2026
17,997,384	2027
<u>267,527</u>	2028-2032
<u>\$ 85,037,467</u>	

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

<b>Item Exempt from Corporate Income Tax</b>	<b>Expiry Year</b>
Sales of wireless and smartphone which has 3.5G and GPS function	2015.01.01-2018.09.30

- g. The aggregate amount of temporary difference associated with investments for which deferred tax assets (liabilities) have not been recognized

As of December 31, 2017 and 2016, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax assets have been recognized were NT\$4,347,613 thousand and NT\$497,194 thousand, respectively.

- h. Integrated income tax

The imputation credit account (“ICA”) information as of December 31, 2017 and 2016, was as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
(Accumulated deficits) unappropriated earnings generated on and after January 1, 1998	<u>\$ (6,093,403)</u>	<u>\$ 10,841,425</u>
Balance of ICA	<u>\$ 8,197,639</u>	<u>\$ 8,196,519</u>

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
	(Expected)	
Creditable ratio for distribution of earnings	Note	34.87%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, no creditable ratio for distribution of earnings in and after 2018 is expected.

i. Income tax assessments

HTC's tax returns through 2015 had been assessed by the tax authorities. HTC disagreed with the tax authorities' assessment of its 2015 tax return and applied for a re-examination. Nevertheless, to be conservative, HTC had accrued for the additional income tax assessed by the tax authorities.

The income tax returns of Yoda Co., Ltd., Communication Global Certification Inc., HTC Investment Corporation and HTC I Investment Corporation for the years through 2015 have been examined and approved by the tax authorities.

## 28. LOSS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Basic loss per share	<u>\$ (20.58)</u>	<u>\$ (12.81)</u>

The loss and weighted average number of ordinary shares outstanding for the computation of loss per share were as follows:

### Net Loss for the Years

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Loss for the year attributable to owners of the parent	<u>\$ (16,905,713)</u>	<u>\$ (10,560,103)</u>

### Shares

Unit: In Thousands of Shares

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Weighted average number of ordinary shares in computation of basic loss per share	<u>821,593</u>	<u>824,084</u>

Since part of the exercise price of the employee share options issued by the Company exceeded the average market price of the shares for the years ended December 31, 2017 and 2016, respectively, as loss per share, they were anti-dilutive and excluded from the computation of diluted earnings per share.



## 29. BUSINESS COMBINATIONS

### a. Subsidiaries acquired

	<b>Principal Activity</b>	<b>Date of Acquisition</b>	<b>Proportion of Voting Equity Interests Acquired (%)</b>	<b>Consideration Transferred</b>
VRChat, Inc. and its subsidiary	Development of virtual reality devices	August 2, 2017	53.16	<u>\$ 118,756</u>

VRChat, Inc. and its subsidiary were acquired in August 2017 by the Company to diversify the range of virtual reality development. The Company acquired 53.16% equity interest in VRChat, Inc. by investing US\$3,649 thousand in cash and the convertible bonds amounted to US\$275 thousand converted to preferred shares. VRChat, Inc. and its subsidiary were incorporated in consolidated financial statement by its acquisition of control.

### b. Considerations transferred

	<b>VRChat, Inc.</b>
Convertible bonds converted to preferred shares	\$ 8,322
Cash	<u>110,434</u>
	<u>\$ 118,756</u>

### c. Assets acquired and liabilities assumed at the date of acquisition

	<b>VRChat, Inc.</b>
Current assets	
Cash and cash equivalents	\$ 116,408
Other receivables	9,457
Current liabilities	
Other payables	<u>(32,619)</u>
	<u>\$ 93,246</u>

### d. Non-controlling interests

The non-controlling interest (46.84% ownership interest in VRChat, Inc.) recognized at the acquisition date was measured by reference to the percentage of net assets.

### e. Goodwill recognized on acquisition

	<b>VRChat, Inc.</b>
Consideration transferred	\$ 118,756
Plus: Non-controlling interests (46.84% in VRChat, Inc.)	43,676
Less: Fair value of identifiable net assets acquired	<u>(93,246)</u>
Goodwill recognized on acquisition	<u>\$ 69,186</u>

The goodwill recognized in the acquisition of VRChat, Inc. and its subsidiary mainly represents the control premium included in the cost of the combination. In addition, the consideration paid for the combination effectively included amounts attributed to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of VRChat, Inc. and its subsidiary. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

f. Net cash inflow on acquisition of subsidiaries

	<b>VRChat, Inc.</b>
Consideration paid in cash	\$ (110,434)
Less: Cash and cash equivalent balances acquired	<u>116,408</u>
	<u>\$ 5,974</u>

g. Impact of acquisitions on the results of the Group

The results of the acquirees since the acquisition date included in the consolidated statements of comprehensive income were as follows:

	<b>VRChat, Inc.</b>
Revenue	<u>\$ -</u>
Loss	<u>\$ (31,268)</u>

Had these business combinations been in effect at the beginning of the annual reporting period, the Company's revenue from continuing operations would have been NT\$62,119,814 thousand, and the loss from continuing operations would have been (NT\$16,947,067) thousand for the year ended December 31, 2017. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on August 2, 2017, nor is it intended to be a projection of future results.

### 30. SHARE-BASED PAYMENT ARRANGEMENTS

#### Employee Share Option Plan of the Company

Qualified employees of HTC and its subsidiaries were granted 15,000 thousand options in November 2013. Each option entitles the holder to subscribe for one common share of HTC. The options granted are valid for 7 years and exercisable at certain percentages after the second anniversary from the grant date.

Qualified employees of HTC and its subsidiaries were granted 19,000 thousand options in October 2014. Each option entitles the holder to subscribe for one common share of HTC. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date.

Qualified employees of HTC and its subsidiaries were granted 1,000 thousand options in August 2015. Each option entitles the holder to subscribe for one ordinary share of HTC. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date.

The exercise price equals to the closing price of HTC's ordinary shares on the grant date. For any subsequent changes in the HTC's ordinary shares, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	<b>For the Year Ended December 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>
Balance at January 1	20,072	\$ 136.65	24,964	\$ 137.20
Options exercised	(10)		-	
Options forfeited	<u>(3,994)</u>		<u>(4,892)</u>	
Balance at December 31	<u>16,068</u>	137.45	<u>20,072</u>	136.65
Options exercisable, end of the year	<u>15,792</u>		<u>14,658</u>	

Information about outstanding options as of the reporting date was as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Range of exercise price (NT\$)	\$54.5-\$149	\$54.5-\$149
Weighted-average remaining contractual life (years)	5.24 years	6.30 years

Options granted in August 2015, October 2014 and November 2013 were priced using the trinomial option pricing model and the inputs to the model were as follows:

	<b>August 2015</b>	<b>October 2014</b>	<b>November 2013</b>
Grant-date share price (NT\$)	\$54.50	\$134.50	\$149.00
Exercise price (NT\$)	\$54.50	\$134.50	\$149.00
Expected volatility	39.26%	33.46%	45.83%
Expected life (years)	10 years	10 years	7 years
Expected dividend yield	4.04%	4.40%	5.00%
Risk-free interest rate	1.3965%	1.7021%	1.63%

Expected volatility was based on the historical share price volatility over the past 1 year. The Company assumed that employees would exercise their options after the vesting date when the share price was 1.63 times the exercise price.

### **Employee Restricted Shares**

In the shareholder meeting on June 19, 2014 and June 2, 2015, the shareholders approved a restricted stock plan for employees with 5,000 thousand and 7,500 thousand shares amounting to NT\$50,000 thousand and NT\$75,000 thousand, respectively. In 2014 and 2015, HTC's board of directors passed a resolution to issue 5,000 thousand shares and 7,500 thousand shares, respectively.

The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:

- a. The employees cannot sell, pledge, transfer, donate or in any other way dispose of these shares.
- b. The employees holding these shares are entitled to receive cash and dividends in share.
- c. The employees holding these shares have no voting rights.

If an employee fails to meet the vesting conditions, HTC will recall or buy back and cancel the restricted shares. For the years ended December 31, 2016 and 2017, HTC retired 1,358 thousand and 1,193 thousand restricted shares for employees amounting to NT\$13,578 thousand and NT\$11,926 thousand, respectively. As a result, the numbers of the HTC's issued and outstanding employee restricted shares as of December 31, 2017 was 3,209 thousand shares. The related information was as follows:

Grant-date	July 18, 2016	December 23, 2015	August 10, 2015	November 2, 2014
Grant-date fair value (NT\$)	\$96.90	\$76.20	\$57.50	\$134.50
Exercise price	Gratuitous	Gratuitous	Gratuitous	Gratuitous
Numbers of shares (thousand shares)	2,657	4,006	400	4,600
Vesting period (years)	1-4 years	1-3 years	1-3 years	1-3 years

### Compensation Cost of Share-based Payment Arrangements

Compensation cost of share-based payment arrangement recognized was NT\$128,811 thousand and NT\$431,996 thousand for the years ended December 31, 2017 and 2016, respectively.

## 31. 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.

## 32. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments That Are Not Measured at Fair Value

Financial instruments not carried at fair value held by the Company include financial assets measured at cost and debt investments with no active market. The management considers that the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair value or the fair value are not measured reliably.

### Fair Value of Financial Instruments That Are Measured at Fair Value on a Recurring Basis

#### a. Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	\$ -	\$ 65,199	\$ -	\$ 65,199
Available-for-sale financial assets				
Domestic listed stocks - equity investments	\$ 91	\$ -	\$ -	\$ 91
Overseas listed stocks - equity investments	312,106	-	-	312,106
	\$ 312,197	\$ -	\$ -	\$ 312,197

(Continued)

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial liabilities at FVTPL				
Derivative financial instruments	\$ <u>          -</u>	\$ <u>  75,184</u>	\$ <u>          -</u>	\$ <u>  75,184</u> (Concluded)

December 31, 2016

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL				
Derivative financial instruments	\$ <u>          -</u>	\$ <u> 143,642</u>	\$ <u>          -</u>	\$ <u> 143,642</u>
Available-for-sale financial assets				
Domestic listed stocks - equity investments	\$       86	\$       -	\$       -	\$       86
Overseas listed stocks - equity investments	<u> 199,344</u>	<u>          -</u>	<u>          -</u>	<u> 199,344</u>
	<u>\$ 199,430</u>	<u>\$           -</u>	<u>\$           -</u>	<u>\$ 199,430</u>
Financial liabilities at FVTPL				
Derivative financial instruments	\$ <u>          -</u>	\$ <u> 133,420</u>	\$ <u>          -</u>	\$ <u> 133,420</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2017 and 2016.

b. Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - foreign currency contracts	Discounted cash flow: Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

**Categories of Financial Instruments**

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
<u>Financial assets</u>		
FVTPL		
Held for trading (Note 1)	\$ 196,941	\$ 143,642
Loans and receivables (Note 2)	27,211,199	53,495,584
Available-for-sale financial assets (Note 3)	3,367,695	3,563,166
<u>Financial liabilities</u>		
FVTPL		
Held for trading	75,184	133,420
Amortized cost (Note 4)	26,389,180	45,052,834

Note 1: The balances included financial assets held for trading and financial assets measured at cost held for trading.

Note 2: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, other financial assets, trade receivables, other receivables and refundable deposits.

Note 3: The balances included available-for-sale financial assets and the carrying amount of available-for-sale financial assets measured at cost.

Note 4: The balances included financial liabilities measured at amortized cost, which comprise note and trade payables, other payables, agency receipts and guarantee deposits received.

### **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 Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze the exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The Company sought 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 was governed by the Company's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies was reviewed by the internal auditors on a continuous basis. The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function 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 exposed it primarily to the financial risks of changes in foreign currency exchange rates. The Company entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk.

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

#### Foreign currency risk

The Company undertook transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arose. Exchange rate exposures were 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 and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 37.

#### Sensitivity analysis

The Company was mainly exposed to the currency United States dollars (USD), currency Euro (EUR), currency Renminbi (RMB) and currency 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 included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges. A positive number below indicates an increase in pre-tax profit (loss) or equity associated with the NTD strengthens 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be an equal and opposite impact on pre-tax profit (loss) or equity, and the balances below would be negative.

	<b>Profit or Loss</b>	<b>Equity</b>
<u>For the year ended December 31, 2017</u>		
USD	\$ 30,978	\$ (136,557)
EUR	2,751	(5,429)
RMB	(8,819)	(99,138)
JPY	(1,356)	(1,376)
<u>For the year ended December 31, 2016</u>		
USD	44,739	(166,009)
EUR	975	(19,292)
RMB	(26,064)	(114,465)
JPY	11,035	(1,284)

b. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation and financial guarantees provided by the Company could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets. The Company does not issue any financial guarantee involving credit risk.

The Company 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 is disclosed in the Note 11.

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 for non-derivative financial liabilities

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay.

December 31, 2017

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 7,127,952	\$ 7,441,270	\$ -
Other payables	6,885,512	4,796,378	-
Other current liabilities	132,387	-	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>5,681</u>
	<u>\$ 14,145,851</u>	<u>\$ 12,237,648</u>	<u>\$ 5,681</u>

December 31, 2016

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 10,641,728	\$ 15,606,000	\$ -
Other payables	10,341,957	8,006,777	-
Other current liabilities	371,910	62,356	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>22,106</u>
	<u>\$ 21,355,595</u>	<u>\$ 23,675,133</u>	<u>\$ 22,106</u>

2) Liquidity risk tables for derivative financial instruments

The following table detailed the Company's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

December 31, 2017

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Net settled</u>			
Foreign exchange contracts	<u>\$ 36,842</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 14,373,269	\$ -	\$ -
Outflows	<u>(14,386,102)</u>	<u>-</u>	<u>-</u>
	<u>\$ (12,833)</u>	<u>\$ -</u>	<u>\$ -</u>



December 31, 2016

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Net settled</u>			
Foreign exchange contracts	\$ <u>73,323</u>	\$ <u>-</u>	\$ <u>-</u>
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 15,227,772	\$ -	\$ -
Outflows	<u>(15,250,504)</u>	<u>-</u>	<u>-</u>
	<u>\$ (22,732)</u>	<u>\$ -</u>	<u>\$ -</u>

3) Bank credit limit

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Unsecured bank general credit limit		
Amount used	\$ 294,870	\$ 710,857
Amount unused	<u>18,315,345</u>	<u>22,227,369</u>
	<u>\$ 18,610,215</u>	<u>\$ 22,938,226</u>

Amount used was included guarantee for customs duties and for patent litigation.

### 33. RELATED-PARTY TRANSACTIONS

Balance, transactions, revenue and expenses between HTC and its subsidiaries, which are related parties of HTC, have been eliminated on consolidation and are not disclosed in this note. Besides as disclosed elsewhere in other notes, details of transactions between the Company and other related parties are disclosed below.

#### The Names and Relationships of Related-parties

<u>Related-party</u>	<u>Relationship with the Company</u>
VIA Technologies Inc.	Its chairman in substance is HTC's director
VIA Labs, Inc.	Its chairman in substance is HTC's director
Way Chih Investment Co., Ltd.	HTC's supervisor
HTC Education Foundation	Its chairman in substance is HTC's director
TVBS Media Inc.	Same director as HTC's
Hung-Mao Investment Co., Ltd.	Its significant shareholder in substance is HTC's chairwoman
Nan Ya Plastics Corporation	Its director in substance and HTC's chairwoman are relatives and other relatives
Atrust Computer Corporation	Its general manager in substance is HTC's director
Employees' Welfare Committee	Employees' Welfare Committee of HTC
Huada Digital Corporation	Joint Venture
VIA Technologies (China) Co., Ltd.	The chairman of its parent company in substance is HTC's director

## Operating Sales

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Joint venture	\$ -	\$ 28,955
Employees' Welfare Committee	-	937
Other related parties	<u>83,165</u>	<u>102,003</u>
	<u>\$ 83,165</u>	<u>\$ 131,895</u>

The following balances of trade receivables from related parties were outstanding at the end of the reporting period:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Other related parties	<u>\$ 22,400</u>	<u>\$ 15,720</u>

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. No guarantees had been asked for trade receivables from related parties. Trade receivables from related parties are assessed without bad debt risk hence no bad debt expense had been recognized for the years ended December 31, 2017 and 2016.

## Purchase

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Other related parties	<u>\$ 3,360</u>	<u>\$ 1,866</u>

The following balances of trade payables from related parties were outstanding at the end of the reporting period:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Other related parties	<u>\$ 960</u>	<u>\$ 1,866</u>

Purchase prices for related parties and third parties were similar. The outstanding balance of trade payables to related parties are unsecured and will be settled in cash.

## Compensation of Key Management Personnel

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term benefits	\$ 210,480	\$ 378,456
Post-employment benefits	2,669	2,709
Termination benefits	-	17,583
Share-based payments	<u>13,952</u>	<u>75,366</u>
	<u>\$ 227,101</u>	<u>\$ 474,114</u>

The remuneration of directors and key executives was determined by the remuneration committee on the basis of the performance of individuals and market trends.

## Rental Expenses

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
VIA Technologies (China) Co., Ltd.	\$ 24,087	\$ 9,178
Other related parties	<u>4,708</u>	<u>-</u>
	<u>\$ 28,795</u>	<u>\$ -</u>

The Company leased offices, staff dormitory and meeting rooms owned by VIA Technologies (China) Co., Ltd. and a related party under an operating lease agreement, respectively. The rental payment is determined at the prevailing rates in the surrounding area.

## Property, Plant and Equipment Acquired

	<b>Price</b>	
	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Other related parties	<u>\$ -</u>	<u>\$ 81</u>

## Other Related-party Transactions

Other related parties provide selling and marketing service to the Company. The selling and marketing service expenses were NT\$6,000 thousand and NT\$6,427 thousand for the years ended December 31, 2017 and 2016, respectively.

## 34. PLEDGED ASSETS

As of December 31, 2017 and 2016, the time of deposits amounting to NT\$149,810 thousand and NT\$113,528 thousand and were classified as other current financial assets were provided respectively as collateral for rental deposits and litigation.

## 35. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

In June 2011, ICom filed a new complaint against the Company alleging patent infringement of patent owned by ICom 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 implemented the alternative solution since 2012. The Company evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against the alternative solution of 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. As for the third patents-in-suit, the Washington Court has granted a stay on case pending appeal decision. In January 2014, the Court of Appeal for the Federal Circuit affirmed the Washington Court's decision.

In February 2017, the Court of appeal of the United Kingdom found the alternative solution of the Company did not infringed and only some old products without the alternative solution infringed the United Kingdom part of European patent No. 1841268 (EP '268 patent). The EP '268 patent was held to be valid by European Patent Office on July 18, 2017. The next hearing has not been scheduled by the Courts yet.

As of the date that the Board of Directors approved and authorized for issuing consolidated financial statements, there had been no critical Court decision been made, except for the above.

- b. In December 2015, Koninklijke Philips N.V. (Philips) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging infringement of certain Philips patents. In October 2016, the Mannheim Court found that certain smartphone products sold by Company in Germany infringed the German part of European patent No. 0888687 (EP '687 patent), which relates to device user interface, and granted an injunction against the Company. However, Philips has not enforced the injunction. In July 2017, the German Federal Patent Court found that EP '687 patent is invalid. The litigations between the Company and Philips are ongoing. In order to protect the interests of the Company, and its customers, the Company has appealed the Court's decision.

As of the date that the Board of Directors approved and authorized for issuing consolidated financial statements, the appeals Court has not issued a ruling with respect to the EP '687 patent.

In October 2017, the court of appeal of the United Kingdom dismissed HTC's appeal allegation that the rights we obtain by virtue of a covenant between Philips and Qualcomm extend to Philips' patents covering HSPA technology. As such, the covenant does not provide HTC with a defense against the patent actions in suit relating to this technology. The technical hearings of the three patents in suit will now proceed as follows: EP (UK) 1440525 is scheduled for April 2018 whilst EP (UK) 1685659 and EP (UK) 1623511 are both scheduled for June 2018.

- c. 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.

### **36. SIGNIFICANT EVENTS AFTER REPORTING PERIOD**

On September 21 2017, the Company signed a business cooperation agreement with Google Inc. (Google). The agreement supports the Company's continued use of its brand, enabling a more streamlined product portfolio, greater operational efficiency and financial flexibility. The part of employees and assets of the Company will transfer to Google and Google will receive a non-exclusive license for the HTC intellectual property. The transaction amounted to US\$1,100,000 thousand and completed on January 30, 2018.

### 37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	December 31			
	2017		2016	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 1,156,853	29.84	\$ 1,914,574	32.27
EUR	63,262	35.66	101,434	33.91
JPY	5,825,499	0.2649	2,711,104	0.2756
RMB	1,188,839	4.58	1,208,051	4.62
Non-monetary items				
USD	85,590	29.84	84,259	32.27
RMB	1,536	4.58	167	4.62
Investments accounted for by the equity method				
USD	13,460	29.84	16,111	32.27
RMB	2,513	4.58	2,500	4.62
<u>Financial liabilities</u>				
Monetary items				
USD	793,530	29.84	1,445,356	32.27
EUR	66,494	35.66	93,533	33.91
JPY	4,922,152	0.2649	6,745,333	0.2756
RMB	179,398	4.58	212,669	4.62

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange gains were NT\$442,530 thousand and NT\$348,061 thousand, respectively. It is impractical to disclose net foreign exchange gains or losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

### 38. SIGNIFICANT CONTRACTS

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	Term	Description
Apple, Inc.	January 1, 2015 - December 31, 2017	The scope of this license covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with payment based on the agreement.

(Continued)

<b>Contractor</b>	<b>Term</b>	<b>Description</b>
Qualcomm Incorporated.	December 20, 2000 to the following dates:  a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents.  b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units, royalty payment based on agreement.
Nokia Corporation	January 1, 2014 - December 31, 2018	Patent and technology collaboration; payment for use of implementation patents based on agreement.
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; 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 properties.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA standards patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

(Continued)

<b>Contractor</b>	<b>Term</b>	<b>Description</b>
Google Inc.	September 21, 2017 - January 30, 2018	Certain HTC employees who are already working with Google Inc. to develop Pixel smartphones will join Google Inc. HTC will receive US\$1.1 billion in cash from Google Inc. as part of the transaction. Separately, Google Inc. will receive a non-exclusive license for HTC intellectual property. (Concluded)

### 39. SEGMENT INFORMATION

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 was as follows:

#### Geographical Areas

The locations of the Company's non-current assets (other than financial instruments, deferred tax assets and post-employment benefit assets) as of December 31, 2017 and 2016 were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Taiwan	\$ 12,146,237	\$ 13,565,322
Country Z	157,576	159,072
Others	<u>3,044,438</u>	<u>6,442,335</u>
	<u>\$ 15,348,251</u>	<u>\$ 20,166,729</u>

The countries that accounted for 10 percent or more of consolidated total revenues for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Taiwan	\$ 7,053,499	\$ 10,087,044
Country Z	27,951,150	32,476,961
Others	<u>27,115,165</u>	<u>35,597,153</u>
	<u>\$ 62,119,814</u>	<u>\$ 78,161,158</u>

#### Major Customer

External customer which accounted for 10 percent or more of the Company's total revenues for the years ended December 31, 2017 and 2016 was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Customer A	<u>\$ 28,107,186</u>	<u>\$ 16,374,256</u>