quietly brilliant

2013 HTC ANNUAL REPORT

TWSE 2498

2013

ANNUAL REPORT

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CHAPTER 1

LETTER TO HTC SHAREHOLDERS

LETTER TO SHAREHOLDERS

Chairperson

Dear Shareholders,

2013 was a true year of transition for HTC Corporation, one we believe has positioned us for great success down the road. HTC always puts a relentless focus on our customers. Last year, HTC cemented its position as a true leader in this regard, introducing our most successful smartphone ever, the HTC One. This success was built on premium, critically-acclaimed design and breakthrough innovations that stood out from the crowd. Awards and accolades are still pouring in for this fantastic phone a year later. We also introduced the HTC One mini and HTC One max variants, launched new Desire models for the mid-tier segment, refreshed the powerful Butterfly model that enjoys popularity throughout Asia. HTC has always made great products, and last year we stepped up our efforts to tell customers about them. Our "Here's To Change" brand platform, sponsorship deal with Europe's UEFA Champions League, and partnership with Robert Downey, Jr. got more people talking about HTC than ever before. Nonetheless, faced with intense pressure from powerful competitors, HTC's financial performance did not live up to our expectations. We embarked on swift and comprehensive action to return the business to health. So far 2014 has given us much cause for optimism, with strong positive reaction from media and consumers to our groundbreaking HTC One (M8) flagship phone and a beautiful new mid-tier model, the HTC Desire 816. We are confident we have taken the right steps to ensure a healthy, bright future for HTC, our customers, and our investors.

Financial Performance

Full-year consolidated revenues came in at NT$203.4 billion, with a consolidated gross profit of NT$42.27 billion and an operating gross margin of 21 percent. Combined operating margin was -2 percent, with an operating loss of NT3.97 billion. The full-year after-tax net loss was NT$1.32 billion, while Earnings Per Share (EPS) was a loss of NT$1.60. HTC continues to focus on its core operations, working diligently to further reduce costs and restore positive performance in 2014.

Product Summary

In February, 2013, HTC introduced its flagship smartphone, the HTC One. This phone introduced a number of breakthrough innovations that still lead the industry. These include a nearly all-aluminum body made possible only with a pioneering manufacturing process, and the BlinkFeed home screen experience that lets users customize their home screen with contents from Facebook, Twitter, and hundreds of global media partners including the AOL family of properties, CNN, ESPN, Reuters, and many more. The HTC One also introduced HTC's own proprietary sound technology, HTC BoomSound™ with dual front-facing speakers, and the unique UltraPixel camera with incredible low-light performance.

HTC also introduced the HTC Butterfly s, a phone that brought many of the innovations from the HTC One to the Butterfly franchise that has enjoyed popularity throughout Asia. Later in the year, HTC also released blue, red and champagne-gold editions of the HTC One, and a limited-edition "Hello Kitty" HTC Butterfly s.

With the launch of the HTC One on Verizon in August, HTC's flagship phone became available across all four major U.S. carriers in the US for the first time. Building on the success of the HTC One, HTC introduced the HTC One mini and the HTC One max later on, offering a family of devices that provide something for everyone.

A new range of Desire products was introduced during the course of 2013, complimenting the flagship One family. These products provide options for customers from super fast 4G to entry level smartphones. The most highly recommended of which, the Desire 500 scoring 89% in independent reviews, proving a success in multiple European countries: Germany, Italy, Spain, Poland amongst others. The launch of the new mid-range Desire 601 and entry-level Desire 300, also in the third quarter, further expanded HTC's portfolio, enabling consumers to enjoy a premium experience at any price point. The Desire products also provide a platform for customers to experience a number of core features, such as BlinkFeed, video highlights which were previously only reserved for the One family.

This positive momentum has only continued in 2014. At Mobile World Congress in February, we launched the HTC Desire 816, which brought beautiful design and high performance to the mid-tier segment. This new smartphone won several awards, including "Best Mid-Range Phone" from Android Authority and "Best Budget Phone" from Laptop Magazine. Also at MWC, the HTC One was awarded "Best Smartphone of 2013" from the GSMA, and also won the coveted Gold Design award from iF Design. In March, we unveiled the HTC One (M8), our new flagship smartphone that delivers premium metal design, a completely redesigned HTC Sense user experience, improved BoomSound, and a breakthrough Duo Camera.

Honors, Awards, and Buzz

HTC's designs were lauded by the media, and received prestigious awards throughout 2013. The new HTC One was awarded the GSMA's "The Best Mobile Handset, Device, or Tablet". This flagship device was also awarded Tech Radar's "MWC's Best Phone" and "Best in Show" and won "Best Smartphone" from Mobile Geeks. The HTC One continued to win accolades later in the year, including "Phone of the Year in 2013" by

T3 Gadget Awards and "Best European Advanced Smartphone 2013–2014" from the European Imaging and Sound Association. In the fourth quarter, the HTC One claimed yet another Best Phone title by Tbreak Awards, the most prestigious technology and gaming awards in the Middle East. At Mobile World Congress 2014, the GSMA named the HTC One "Best Smartphone of the Year", and iF Design bestowed its coveted Gold Award for Design on the HTC One as well.

HTC also made great strides in raising the profile of the HTC brand, launching the Here's To Change global brand campaign that affirmed our role as the change-maker challenging the status quo since the dawn of the mobile phone industry, as well as our mission of continuing to bring change into the hands of people around the world. The campaign kicked off with a television commercial featuring Robert Downey, Jr., which significantly ramped up consumer engagement and positive sentiments, increasing advertising awareness by 12% and brand momentum by 15%. (Hall & Partners, 2013)

2013 was also HTC's first full year as Official Global Phone Supplier to the UEFA Champions League and Europa League. This extensive partnership helped us reach over one billion people globally through our "Change Your Game" integrated marketing communications program. In 2013 we also launched the HTC FootballFeed app, enabling consumers to get real-time official updates on all aspects of two of football's most prestigious competitions, bringing fans closer than ever to the game, through an innovative and overall richer mobile experience.

Other examples of innovative marketing activities included the launch of HTC's "Most Beautiful Smartphone" campaign through an interactive outdoor billboard at Times Square in New York City, boosting digital engagement with consumers and activation through the holiday sales season. Also, "The Ultimate Smartphone Photo Booth" was launched in partnership with Qualcomm. This technological marvel consisted of 130 HTC One phones arranged to shoot 540 degrees of action. The photo booth toured major cities in the United States, showing off the vivid and true-to-life images captured by HTC's groundbreaking UltraPixel camera in a way similar to high-end Hollywood special effects. A video about the project received more than five million views on YouTube alone.

Another very rewarding program we've revealed in Barcelona was the shared processing initiative - Power To Give, an app that allows people to donate their spare processing power as they charge their phone overnight, to good causes of their choice, in order to answer some of the world's biggest questions – cure for cancer or Alzheimer, helping environmental and ecological programs and of course, the search for extraterrestrial life. This corporate social responsive initiative spells a new era for HTC brand and our drive to tackle some of the biggest opportunities that a connected, mobile world can unite to solve.

Social Responsibility

HTC has always cared for the community, promoting public service as a duty and hoping to make a contribution. The HTC Social Welfare Foundation has been a long-term sponsor of the welfare of disadvantaged groups, supporting educational programs at home and abroad, and providing scholarships to impoverished students globally. In addition, the HTC Education Foundation is committed to promoting moral character and civic education programs. Apart from the donation of books, the foundation works with local and global educational institutions to plan educational projects, as well as actively initiating educational incentive programs.

Peter Chou

CEO & President

Vision for the Future

This year we are more excited than ever about the future of mobile. We are confident in our ability to continue leading the industry with brilliant design inside and out, and innovation that is relevant to our customers. Exciting new technologies are opening up tantalizing opportunities, and HTC is determined to bring our world-class design and innovation to create breakthrough products. We will continue to invest in our brand, marketing and sales and make sure that more people than ever get to know HTC first hand. Thanks for coming along for the ride!

HTC Corporation

Chairperson

Cher Wang

CEO & President

Peter Chou

CHAPTER 2

COMPANY PROFILE

COMPANY PROFILE

HTC - A Global Leader in Smartphone Innovation and Design

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

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

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

In the long-term partnership with Microsoft, HTC launched flagship products for each generation of the Windows CE, Windows Mobile and Windows Phones systems. With Google, HTC developed the world's first Android smartphone. Also ahead of the competition, HTC was the first company to launch 3G, 4G WiMAX and LTE smartphone devices in the world. In terms of product design, our belief in putting customer at the center leads to the birth of HTC Sense®, a user-centric perspective features the amazing camera that let users to capture every precious moment in life easily and authentic sounds that provide high fidelity audio experience. HTC has repeatedly taken HTC Sense® to its next level to delight and surprise consumers. HTC believes that the new generations of smartphones are not only a communication tool but also an all-round mobile device that fulfills users' needs in entertainment, social networking, and personal lifestyle. Therefore, the HTC One introduces HTC BlinkFeed™ , HTC Zoe ™ and HTC BoomSound ™ , key new HTC Sense® innovations that reinvent the mobile experience and set a new standard for smartphones.

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

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

2013 GSMA "The Best Mobile Handset, Device, or Tablet"
2014 GSMA "Best Smartphone of the Year" • 2014 "iF Design Gold Award"

Company History

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

Professional PDA Designer

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

Smart Phones Leader

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

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

HTC Brand

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

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

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

HTC also made great strides in raising the profile of the HTC brand, launching the Here's To Change global brand campaign that affirmed our role as the change-maker challenging the status quo since the dawn of the mobile phone industry, as well as our mission of continuing to bring change into the hands of people around the world. The campaign kicked off with a television commercial featuring Robert Downey, Jr., which significantly ramped up consumer engagement and positive sentiments, increasing advertising awareness by 12% and brand momentum by 15%.

In February, 2013, HTC introduced its most successful product ever -- the HTC One(M7) which introduced a number of breakthrough innovations. This flagship smartphone was awarded the GSMA's "The Best Mobile Handset, Device, or Tablet" and has continued to received prestigious awards throughout 2013. HTC has added another prestigious award this year, att Mobile World Congress 2014, the GSMA named the HTC One "Best Smartphone of the Year" and iF Design bestowed its coveted Gold Award for Design on the HTC One as well. While bringing the exceptional innovation and design capabilities to the world, HTC also invested significant resources into global marketing and operations. Looking forward, we firmly believe that HTC's focus, determination and expertise will continue to help us meet future challenges and makes HTC the first choice of smartphone brands.

Product Development

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

With exploding development of mobile communications, people today immerse themselves in a constant stream of updates, news and information; smartphones are one of the main ways we stay in touch with the people and information we care about. The HTC One(M7), launched in February of 2013, has re-imagined the mobile experience from the ground up to reflect this new reality. Crafted with a distinct zero-gap aluminium unibody, the HTC One introduces HTC BlinkFeed™, HTC Zoe™ and HTC BoomSound™, key new HTC Sense® innovations that all of which have been fond of many consumers and won numerous prestigious smartphone awards across the globe.

At the center of the HTC One experience is HTC BlinkFeed™, a bold new experience that transforms the home screen into a single live stream of personally relevant information such as social updates, entertainment and lifestyle updates, news and photos. HTC provides both local and global content from more than 1,400 media sources from the most innovative media companies, such as the AOL family of media properties, ESPN, MTV, Vice Media, CoolHunting, Reuters and many others. HTC BlinkFeed™ enable this

HTC One (M8) & HTC Dot View™

new dynamic approach to the smartphone, it's a personal live stream right on the home screen. The breakthrough HTC UltraPixel ™ Camera with HTC Zoe ™ also redefines how people capture, relive and share their most precious moments. HTC Zoe ™ gives people the ability to shoot high-res photos that come to life in three-second snippets. These Zoes, photos and videos are then displayed in a unique way that brings the gallery to life and transforms the traditional photo gallery of still images into a motion gallery of memories. It also automatically creates integrated highlight films from each event comprised of Zoes, photos and videos set to music with professionally designed cuts, transitions and effects. These highlight videos can be remixed or set to different themes, and can be easily shared on social networks, email and other services. To enable this innovative camera experience, HTC developed a custom camera that includes a best-in-class f/2.0 aperture lens and a breakthrough sensor with UltraPixels that gather 300 percent more light than traditional smartphone camera sensors. This new approach also delivers astounding low-light performance and a variety of other improvements to photos and videos. In addition, the perfect self-portrait or video is just a tap away with an ultra-wide angle front-facing camera which supports 1080p video capture. Multi-axis optical image stabilization for the rear camera also helps ensure video footage smoother whether stationary or on the move. HTC BoomSound ™ offers the prime audio experience by introducing for the first time on a phone, front-facing stereo speakers with a dedicated amplifier that enabled the real experience for rich, authentic sound. Furthermore, HDR recording uses advanced dual microphones and audio processing to capture clean, rich sound that is worthy of high-definition video footage. And thanks to the addition of HTC Sense Voice™ , which boosts the call volume and quality in noisy environments so that conversations come through loud and clear.

On March 25th 2014 simultaneous launch events in London and New York, HTC unveiled the highly anticipated new HTC One (M8), the ultimate evolution of the previous award-winning flagship product. Launching in Gunmetal Gray with the all-new HTC Sense 6, the new HTC One (M8), boasts a high quality metal unibody with a Smart Sensor Hub that anticipates your needs and uses Motion Launch™ controls to make everyday tasks easier. New Duo Camera technology delivers creative, professional-looking photos and amazing effects, and HTC BoomSound™ again sets new standards for audio quality on a smartphone.

The new HTC One (M8) brings a totally different dimension to mobile imaging by combining the world's first smartphone with a Duo Camera that features HTC's innovative HTC UltraPixel™ module, a dual flash and full 1080p HD video recording, producing incredible images in all lighting conditions and rich, high-quality video. The Duo Camera boasts a depth sensor in addition to the main HTC UltraPixel™ module, capturing detailed depth information from a scene and enabling a range of beautiful and creative effects that allow you to do more with your images than ever before. Like: instantly create professional-looking portraits by altering the focus of your image after the photo has been taken with UFocus™ or make your subject stand out in a more surprising way by altering the background with creative effects using Foregrounder. You can also give your best shots a seasonal flavour using the Seasons animations. Copy & Paste lets you place your family and friends in a different photo entirely, while Dimension Plus ™ presents a unique perspective on your photos by letting you view your image from a different angle by simply tilting the screen. With so much scope to create exciting imagery, Gallery organisation has also been a priority for the designers of HTC Sense, who have introduced Image Match, a visual search tool that intuitively moves all the photos containing a particular subject into one album. In 2014, Zoe™ evolves into a cloud-based service. Upload Zoe Videos for all to see, and invite friends to add their own photos, videos and music to share incredible highlight reels of classic moments.

With the introduction of HTC Sense 6, the new HTC One (M8) boasts capabilities that give the product a sixth sense. For example, Motion Launch™ is immediately able to detect its position and movement, thanks to built-in motion sensors that allow you to interact with the phone without turning on the screen. A simple swipe will activate the device, Auto Answer allows you to answer a call by putting the phone to your ear without touching the screen. HTC Dot View™ case taks that sixth sense functionality one step further you can extend Motion Launch by double tapping the dot view case, in addition to checking the time, weather, new texts, emails and calls – without touching or revealing the screen. An outstanding phone deserves a case that protects and extends its innovative design and leading functionality. Optimised by HTC Sense 6, the new HTC Dot View phone case protects the screen, whilst displaying notifications and interactions in a retro, dot-matrix style. The new HTC One (M8) also has included an Extreme Power Saving Mode that makes your battery last even longer. Fully charged it will deliver 14 days' worth of battery power, whilst still allowing you to receive calls, texts and emails.

HTC BoomSound™ delivering sound that is 25% louder than the HTC One (M7), without compromising quality, the new HTC One (M8) has dual frontal stereo speakers with a new amplifier, redesigned speaker chambers and a tailored audio profile for a truly high definition experience. HTC BlinkFeed™ is now more intuitive, with News Bundles that bring all articles and tweets on the same topic together for easy reading and over 1000+ content partners now clearly categorised on one page, following the most interesting news couldn't be simpler. HTC One (M8) has been redesigned to provide an interactive second screen. You can follow the conversation about the programme online with integrated official Facebook and Twitter streams along with all the latest fan commentary from your social circles. HTC Sense TV™ now also brings live sports statistics for the 10 most popular sports in the world, with sports fans now able to access the latest scores, match statistics and live updates from unmissable games while they watch another game on the main TV screen. HTC Dot View™ phone case has been given the Gold Medal in Design and Innovation award from Computex Taipei 2014. Organized by the Taiwan External Trade Development Council (TAITRA) in conjunction with iF (International Forum Design), the award is the highest honor in the Computex d & i awards. It reinforced HTC's unrivalled design and innovation leadership.

To fulfill different consumers' needs, HTC reignites the mid-market with new HTC Desire™ Portfolio. In 2014, the HTC Desire 816 marks the beginning of an exciting new era for the mid-tier, distils elements of the internationally-acclaimed design DNA of HTC's flagship HTC One® family, with a vibrant, modern colour palate and quality materials that give the HTC Desire range its own familiar, yet distinctive flavour. Launched at the Mobile World Congress in February, the HTC Desire 816 immediately garnered accolades, including "Best Mid-Range Phone" from Android Authority, Know Your Mobile and TechRadar. HTC Desire 610 extends the gun fire in following, powered by a quad-core processor and 4G LTE connectivity that offers an outstanding combination of performance and entertainment at a price that makes it possible for everyone to enjoy an exceptional smartphone experience.

Board of Directors and Supervisors


Cher Wang


HT Cho


David Bruce Yoffie


Wen-Chi Chen


Chen-Kuo Lin


Josef Felder

BOARD OF DIRECTORS

Cher Wang	Chairperson
Wen-Chi Chen	Director
HT Cho	Director
Chen-Kuo Lin	Independent Director Member of the Compensation Committee
Josef Felder	Independent Director
David Bruce Yoffie	Director

BOARD OF SUPERVISORS

Shao-Lun Lee	Supervisor on behalf of Way-Chih Investment Co., Ltd.
Jerry H.C. Chu	Supervisor


Jerry H.C. Chu

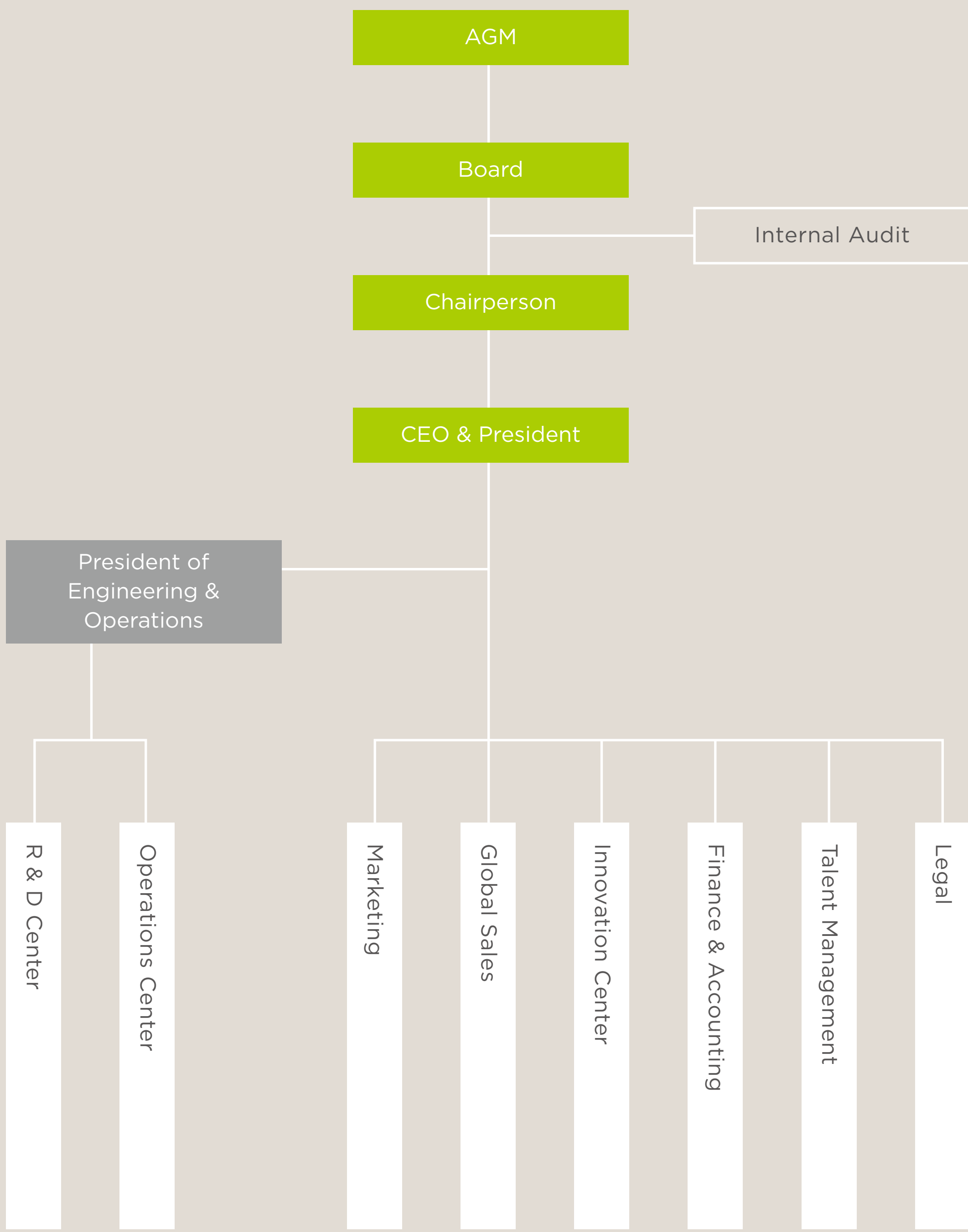

Shao-Lun Lee

Management Team

> Cher Wang, Chairperson

Peter Chou	Chief Executive Officer & President
Fred Liu	President of Engineering and Operations
Chialin Chang	President of Global Sales & Chief Financial Officer
David Chen	Chief Engineering Officer
Ben Ho	Chief Marketing Officer
Grace Lei	General Counsel
Crystal Liu	Vice President, Talent Management
Jason Mackenzie	President of North America
Phil Blair	President of EMEA
Jack Tong	President of China & North Asia
Jackson Yang	President of South Asia
Mike Woodward	Vice President, Emerging Devices
Simon Lin	Vice President, Procurement & Supply Engineering
WH Liu	Vice President, Hardware Engineering
Simon Hsieh	Vice President, Wireless Software
Steve Wang	Vice President, MASD
CS Wang	Vice President, MFG Operation
Georges Boulloy	Vice President, Quality Assurance
Edward Wang	Associate Vice President, Finance & Accounting
James Chen	Associate Vice President, Finance & Accounting

Organization



Organization Functions

President of Engineering & Operations

Fred Liu

President of Engineering and Operations

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

Marketing

Ben Ho

Chief Marketing Officer

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

Talent Management

Crystal Liu

Vice President, Talent Management

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

Global Sales

Chialin Chang

President of Global Sales & Chief Financial Officer

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

Innovation Center

Peter Chou (Concurrent)

Chief Executive Officer & President

Conduct and design R&D work related to new technologies, potential future products and applications; develop innovation research in R&D and design realm to assure HTC's leadership position in the industry; deliver consistent user enjoyment by managing new product offerings and portfolio.

Legal

Grace Lei

General Counsel

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

R&D Center

David Chen

Chief Engineering Officer

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

Finance & Accounting

Chialin Chang

President of Global Sales & Chief Financial Officer

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

Internal Audit

Ken Wang

Senior Director

Inspect and review effectiveness of the internal control system, as well as measure operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations.

Worldwide Office Locations

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

Key HTC operation centers include：

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Human Resources

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

As of March 31, 2014, HTC employed 17,631 staff worldwide. 34.74% (511) of all HTC managerial positions are held by non-Taiwanese managers. Non-Taiwanese managerial and technical staff filled 18.37% of HTC managerial and technical positions. Women held 20.39% of HTC's 1,471 managerial positions.

Statistics related to the structure of human resources at HTC

(excluding outsourced labor)

Employees by Position Type

	Mar. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Management	1,471	1,514	1,473	1,317
Specialists	3,771	3,929	3,623	4,010
Administrators	1,285	1,338	1,280	1,240
Technical Staff	11,104	12,471	11,199	10,846
Total	17,631	19,252	17,575	17,413

Gender, Average Age and Average Years of Service

	Mar. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Male	8,920	9,662	9,798	9,982
Female	8,711	9,590	7,777	7,431
Average Age	29.74	29.35	31.20	29.73
Average Years of Service	2.86	2.79	1.81	2.16

Employees' Highest Level of Academic Achievement

	Mar. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Ph.D.	100	98	93	94
Master's	3,112	3,220	3,304	3,514
Bachelor's	4,778	5,342	5,202	5,668
Technical/Vocational	1,832	2,036	1,744	1,473
Other	7,809	8,556	7,232	6,664

CHAPTER 3

BUSINESS OPERATIONS

BUSINESS OPERATIONS

Industry Overview

With world leaders and Oscar winners all embracing the "selfie" – a photograph taken of yourself using a smartphone – the age of the smartphone is cemented in our popular culture. The mobile platform is now the main driver behind growth in semi-conductor firms, social networks, content providers and applications. Smartphone penetration globally now stands at 22% (eMarketer) and 2013 marked the first year that smartphone volume passed 1bn, growing 39.2% over 2012 sales volume (IDC). Gartner reported that 195m tablets were sold in 2013, which was 68% growth from 2012 sales of 116m. Adding in 53.9m wearable devices globally that were sold across all formats (ABI Research), the market for connected devices is both diverse and evolving. It is estimated that the number of connected devices in the world will exceed its population in 2014 and rise to 1.4 per capita in 2018 so even though some markets are maturing in terms of smartphone sales, the excitement and innovation in the mobile device category is set to continue.

Across the world there are 800 mobile carriers, of which approximately 500 support smartphones and this is one of the prime drivers for smartphone adoption. Speed and reliability of connectivity greatly enhances the consumer experience and so determines the repertoire of smartphone usage they enjoy. Smartphones are 21% of all mobile devices but they produce 88% of all data traffic which is 29 times higher than a non-smart device. At the top of the curve are 4G enabled devices which are 2.9% of all connections but generate 30% of all mobile data traffic. A 4G device generates 14.5 times more traffic than a non 4G device (Cisco VNI report 2014) – which is why the mobile operators are fiercely innovating price plans and retention schemes to attract these vary valuable users to their networks.

At a market level, China remains the world's largest market but growth rates slowed for the first time in 2013 as the market reached the late majority stage of adoption. 353.9m shipped putting the market penetration at 62.6%, slowing to a growth rate of 86.5% year on year (Canalys). However, with China Mobile, the world's biggest operator planning an aggressive 4G roll-out in 2014 and mobile being the dominant way to connect to the internet, the market demand will remain buoyant. In the US, the smartphone market is now at 56% penetration, up from 35% 2 years ago (based on Pew Research figures.) In the 18 – 34 age bracket the penetration rate is 80%. Only 9% of the US population don't own a cellphone. In EMEA region (Europe, Middle East and Africa), shipments in 2013 were 253.1m, up by 26.1%. As markets mature, the lower penetrated markets like Russia will see the fastest growth rates.

Smartphones themselves continued the trend towards bigger, higher quality screens and more powerful processing power – responding to the ever increasing consumer appetite not only to be connected but to be actively consuming data and content. In 2012, the average smartphone consumed 353MB of data per month – in 2013 it was 529MB of data per month. The network performance greatly helped as connection speeds more than doubled in 2013 delighting consumers with the responsiveness and reliability of their service.

More consumers are therefore opting into plans that allow for much more usage – either through unlimited packages or the inventive shared plans typical of the highly competitive US market. In 2010, the top 1% smartphone users created 52% of the mobile traffic – this was down to 10% as more users increased their data usage. Mobile Video is another big driver of smartphone usage – now up to 53% of all mobile data traffic, having breached the 50% level in 2012. With bigger screens enabling top quality viewing and application usage, it is unsurprising that the percentage of smartphones with screens larger than 4.5 inches went from 20% in Q1 2013 to 38% in Q4 2013 globally (GFK). Asia in particular likes the "phablet" format – with 45% of their phones over 4.5 inches and an enormous 24% over 5 inches.

As the functionality of phones extends beyond a range of services, utilities and applications, the consumer is becoming even more discerning in the quality of the technology and performance. User experience, content management and ability to connect to other devices are all becoming more widely understood as being key criteria to assess a product – not just the industrial design, the operating system and the ecosystem. When asked what the top brand purchase criteria were to consumers across the world, the top ten answers were: (Hall & Partners, Mobile Brand Tracker Research 2013)

1. Well designed
2. Reliable
3. Make Beautiful phones
4. Easy to personalize
5. Fast web Browsing
6. Feels good in my hand
7. Enjoyable Social Networking
8. Wide range of accessories
9. High Quality Screen
10. Best Quality for watching videos

Design features very prominently in the qualities that consumers look for in a brand and product experience. This notably includes one-hand usability and a robustness that can deal with the wear and tear of being picked up over 150 times a day for an average user.

Passion points are becoming more prominent in the range of trendsetting applications and social networks that work most practically over a mobile device. Camera quality for both still photography and video capture is now very high on the consumers' shopping list. This stretches way beyond the specification benchmarks like mega-pixels to camera modes, photo editing, visual effects, focus treatments and sharing capabilities.

This is also true of video capture which now populates the newly popular social networks of Tumblr, Vine and of course the multi-purpose You Tube platform, which is used as a go-to search engine for younger consumers who want to see, not read. Sound is also becoming more prominent in the consideration set – not just for music but for video capture and watching, gaming, voice applications and the increasingly present "car mode".

HTC has built its reputation for designing the world's best smartphones during 2013. At Mobile World Congress in Barcelona in February 2013, HTC One was awarded Best Smartphone of the Show, which was the first in a vast array of smartphone awards across the globe and throughout the year. Widely rated as the world's best smartphone by the experts and consumers alike, HTC One was crowned once again as Best Smartphone of the Year at the Mobile World 2014 Congress achieving the top award in the opinion of 175 of the world's top journalists and analysts. It was a strong testimonial for our truly innovative flagship model which offered unique experiences previously unseen on any smartphone – all metal unibody design, BlinkFeed live screen, BoomSound Dual Front Facing Speakers and Zoe Camera. HTC One as a franchise grew to over 70% awareness amongst our target audience during 2013 (Hall & Partners Brand Tracker 2014), consolidated by addition of other family members through the summer and Autumn with HTC One Mini and HTC One Max. Collectively, it was HTC's fastest selling product family as well as the world's most awarded smartphone of 2013.

Mobile phone shipment worldwide is expected a continuing growth in 2014 which may lead to tight supplies of upstream components. HTC will continue to demand adequate capacity commitments from all suppliers to ensure on-time delivery of their products. HTC is committed to working closely with suppliers to raise production efficiencies as well as to lower the production costs to enhance mutual competitiveness. In addition, HTC will manage the product life cycle jointly with the downstream smartphone agencies and retailer to enhance a robust and healthy industrial ecosystem.

Smartphone Industry Relationship Chart:

Market Analysis

2013 provided another intriguing year in the smartphone category and one where there were business challenges of differing degrees for every manufacturer in the market. Low tier phones represented the fastest growth globally for both mature markets where these are being purchased by the late majority and laggard adopters and also emergent markets which have low penetration so the fastest CAGR. Android continued its dominance as an Operating System – having 78.9% market share for 2013 (Strategy Analytics)

leaving iOS 15.5% and Microsoft 3.6%. New OS providers continue to show confidence within the trade - Tizen from Samsung, Ubuntu, FireFox amongst others - but none have managed to break out yet. With considerable barriers to entry, the fledgling OS companies need to attract developers and monetization platforms in order to get established and therefore attracting device manufacturers.

Collaboration remains the cornerstone of device componentry and smartphone manufacture. Qualcomm remains supreme in terms of the go-to partner for processors for the premium smartphone segment – heralded by its flagship processer brand, Snapdragon. 48% of consumers say that the processor is something they consider when buying a phone (Netfluential 2013). They consider Clockspeed and multi-tasking capability to be the prime requirements of a good processor. Snapdragon is the fastest growing smartphone processor brand in terms of consumer awareness – built on their consumer marketing campaigns throughout 2013. Mediatek has also been the winner in the low tier market – enjoying very strong growth mostly in emerging markets in 2013.

Samsung stretched its market leadership in 2013 with a full year market share of 31.6%, dampened by a weaker fourth quarter where they dipped below 30% after a Q3 high of 33.9%. Apple had 15.5% market share for the year – with strong quarters in Q1 and Q4 where there were new iPhones in the market – reaching a high of 17.6% in Q4 based on the iPhone 5S and 5C. Hauwei. LG and Lenovo all jockeyed for 3rd, 4th and 5th position, all ranging mostly between 4.5 and 5.0% throughout the year. Chinese domestic manufacturers also came to prominence as the China market accounted for a bigger share of the global market. The standout story of 2013 was Xiaomi – widely lauded across the business magazines and best newcomer lists for innovation in their business model to facilitate rapid online sales and capture the imagination of the young, adventurous Chinese consumers who relish the new and different. Market share is one of the Key Performance Indicators (KPI) in the smartphone industry. HTC had a full year market share of 2.0% and was ranked 11th in market throughout the year. With 3.3% separating number 3 from number 12 in the category – it is as fiercely competitive as it is compelling. Amidst the challenging and competitive smartphone market, in addition to our outstanding R&D and innovative capabilities, HTC has established long-term strategic partnerships with industry leaders and major telecom service providers to promote the growth of the smartphone industry. With our relentless commitment to innovations, we will continue to offer a comprehensive product portfolio to satisfy the diverse consumer needs.

Business Scope

With a global sales network, HTC has retained its focus on premium smartphones and continues to offer the consumer choice of both Android and Windows OS in a stunning array of designs. In the long-term strategic partnership with Microsoft, Google and Qualcomm, HTC launched flagship products for each generation of the Windows Phones, and the world's first Android smartphone. Also ahead of the competition, HTC was the first company to launch 3G, 4G WiMAX and LTE smartphone devices in the world. In short-term business development, We sell devices in the affordable, mid-tier and super-phone categories and have extended our channel distribution beyond telecom operators and mobile retail channels into consumer electronics stores and other broader technology outlets as our brand awareness has grown. This includes e-commerce based channels like Amazon and eBay, which are now becoming increasingly significant in shipping new smartphones in unsubsidized markets. In long-term business development, HTC will continue to challenge the status quo to introduce new groundbreaking products that leading the innovations and user experience. We'll also invest significant resources into global marketing and cultivating the brand value via more focuses on preference and royalty enhancement to grow our business to live up our brand promise to both consumers and shareholders. We firmly believe our determination and expertise will continue to help us meet future challenges and makes HTC the first choice among smartphone brands.

Analysis of Business Results

With even more marketing dollars pouring into the industry from Samsung and Apple, sustainable profitable growth was rare across the industry amongst the device manufacturers. After a very strong product launch for HTC One in February, it was followed with HTC One Mini in summer which was rated as 100% positive by media coverage on launch due to the fact that unlike other Mini variants for other manufacturers, HTC One Mini offered the full HTC One experience without compromise – but in a compact package. HTC One Max arrived in the Autumn with innovation around fingerprint lock screen release and in a stunning big screen form factor. With a range of Desire based products and also some tailored local propositions like Dual Sim smartphones, HTC responded to carrier and open market demand to offer a wider portfolio to reach more price points and consumer segments. Overall, this resulted in Consolidated Revenue of NT$203,402,648 generating Gross Profit of NT$42,270,753.

HTC remained the third most preferred brand in 2013 – but came under increased pressure from Nokia and Sony in some markets. 41% of all mobile consumers consider HTC for their next smartphone brand, 44% of all smartphone owners consider HTC and amongst our target audience, (consumers who look for something new and different, value personalization and love the freedom and empowerment of technology) 49% would consider HTC for their next phone. Momentum here is positive – as 53% of consumers buying a phone in the next 6 months would consider a HTC phone for their next model. Brand awareness levels remain above 80% - as we go into our next launch phase of HTC One (M8). In fact, in Q1 2014, we saw volume of buzz, brand momentum (consumers who think HTC is "a brand on the up") and purchase intent all increasing in anticipation of the launch of the HTC One (M8) and a new suite of HTC Desire products, led by the flagship model of HTC Desire 816, revealed at Mobile World Congress and winner of 6 awards at the show. Markets that have seen the biggest uplift in brand metrics in Q1 include Australia, Germany, Indonesia, Russia, USA, Canada, Saudi Arabia, Sweden, United Arab Emirates. (Hall & Partners Brand Tracker 2014)

Brand Strategy

Marketing in 2013 broke some new ground for HTC. With HTC One offering so much new innovation, it was critical that we were able to take bold ownership of our innovation and demonstrate to consumers that something truly original had arrived. This is in stark contrast to the later iterations of other flagship models where consumers expressed disappointment that the hype had not lived up to the reality of the new competitive phones. Focusing on our genuinely inventive key selling points - BlinkFeed, BoomSound, Zoe Camera and All-metal design - the spring marketing campaign established HTC One as truly different from the competition. This messaging was consistent across all channel and customer activity from retail training through to blog white papers. This was all accompanied by a re-development of HTC.com to enable some rich interaction with product demonstrations – enabling consumers in their research phase of their purchase journey to get beyond the specifications and advertising to experience how the HTC One performs. Conversion through the website product pages increased by 165% with longer site visits consisting of 3x more clicks per visit – offering much more consumer engagement and interactivity. With neat guerilla tactics that included a friendly presence at the Samsung launch at Radio City Hall, showcasing our new HTC one product and keeping the queuing journalists warm with hot chocolate, a new playful, authentic HTC emerged, more confidence and presence than the market previously experienced from us. Our partnership with UEFA Champions League and Europa Cup has also brought the HTC brand to millions more households across Europe than we would have otherwise reached. It is a matter of pride to use that there were more high performing store salespeople as our guests at the Champions League Final than senior executive personnel. HTC Football Feed app is another innovative way to uniquely engage football fans with an exclusive experience enabled by HTC. Standout market performance for the HTC One launch included Germany, Russia and Taiwan where HTC grew significantly over H1 2013.

With marketing credibility on the rise, HTC took another bold step in Autumn 2013 to launch a new brand campaign, featuring our new global brand champion, Robert Downey Jr – officially the world's biggest movie star following the record breaking Avengers Assemble and Iron Man 3 movies in 2013. In a visual feast, the campaign celebrated HTC - inviting consumers to construct their own HTC's and so engage with the brand that gives you the freedom to be "anything you want it to be". Immediately controversial and inspiring in equal measure, HTC became the conversation and consumers responded very fondly - with positive sentiment, brand momentum and volume of buzz all increasing in the markets where the campaign aired. China in particular caught HTC and RDJ fever, enabled by the fact that he spoke perfect Mandarin within the commercial, endearing him to his Chinese fans.

Generally, 51% of consumers think Robert Downey Jr is a very positive fit for HTC - and even the critics gave HTC credit for taking a bold move that would make us stand out amidst the blanket marketing of those with eye watering budgets. Although competition was tough in the channels, and with relatively modest marketing investment, driving volume proved challenging and the sales numbers resulted in a 2% market share for the full year, despite it being our fastest selling product line in our history. Amidst our challenges, Cher Wang and Peter Chou embraced the opportunity to talk openly to the press to explain how HTC would be addressing our business constraints and doubling down on design for all our products and develop a consumer centric, mid-tier portfolio within the Desire range. There would also be new innovation from HTC in other mobile devices – tantalizing the audience on what would be coming over the Spring, Summer and Autumn months. This was warmly received and has been the start of a more open and responsive relationship to the media that has continued into 2014.

With HTC One now firmly established as the world's best smartphone, laden with accolades, the stage was well set for a triumphant start to 2014 at Mobile World Congress in Barcelona. Revealing an award-winning HTC Desire 816 and delighted with the GSMA Awards for Best Smartphone of the Year, there was definitely a real sense of anticipation for our launch event in New York and London later on.

On March 25th in simultaneous London and New York events, HTC revealed its new HTC One (M8) smartphone to an unprecedented response. With stylish all metal design that is now the signature for the HTC One family – but sleeker and more curved than last year, the phone is simply stunning. Boasting three cameras, it is a perfect selfie wide angled front camera – and with Duo Camera on the back, you can get professional quality photos with a very simple to shot camera mode – offering such effects as U-Focus, Foregrounder, Cut & Paste and a number of other great image features. Extreme Power saving mode looks after your battery to keep you always connected – BoomSound is 25% louder and BlinkFeed learns your preferences over time. It is beautifully designed – inside and out.

Over 3m consumers engaged in the event through live blogging, the live-stream broadcast or on other social channels. Social mentions for the 24 hours after the event were double the levels of the previous year – news articles published after event were three times the number from the previous year and we quadrupled web traffic to the newly optimized HTC.com – offering the same experience over any screen format from a very small smartphone to a huge monitor. Perhaps the most thrilling aspect to the event was that in the UK and US markets, the product was available in-store and online on that very day – so consumers would not have to wait to buy the new product. Reactions were fast and conclusive – 97% of the first consumers to own the HTC One (M8) would recommend to buy (Bazaarvoice) and 92% give it 5 stars. Many journals have already called it "Smartphone of the Year" and the stage is set for another triumph for HTC, albeit this time the market is stocked and ready to sell. 2014 is a year of optimism amongst the leadership team and the brand certainly seems to be building momentum everyday as consumers start talking about HTC - prompted by exciting marketing campaigns across the world celebrating beautiful design and confidently asking consumers to "ask the internet" about how good the new HTC One (M8) is.

Another very rewarding program for HTC revealed in Barcelona was the shared processing initiative, Power To Give. Working with Professor David Anderson from University of California, Berkeley, HTC has launch an app that allows people to donate their spare processing power as they charge their phone overnight, to good causes of their choice, in order to answer some of the world's biggest questions – cure for cancer or Alzheimer, supplying clean water, helping environmental and ecological programs and of course, the search for extra-terrestrial life. With Cher as the prime mover behind this initiative, it spells a new era for the HTC brand and our drive to tackle some of the biggest opportunities that a connected, mobile world can unite to solve.

Progress in Research & Development

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

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

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

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

At a product launch held in London and New York in February of 2013, HTC unveiled the flagship smartphone HTC One. The device disrupts the traditional mobile experience, and features a seamless metal unibody design. The HTC One comes with the latest HTC Sense® that includes HTC BlinkFeed ™ , which gives the user a real-time dynamic homepage to access global and personal social networks news. HTC Zoe ™ shooting mode uses HTC's UltraPixel™ - powered camera to bring image galleries to life. It redefines how people take pictures, play and share precious moments. In addition, HTC BoomSound ™ provides the industry's best mobile audio experience, utilizing front-facing speakers and dual dynamic microphones. Add to that a full HD screen, and users can immerse themselves in their music, movies, and games. In addition, HTC Sense TV™ allows for the control of most TVs, set-top boxes, and receivers by transforming the smartphone into a remote control. The HTC One won the Best Smartphone of the Year at the 2014 MWC hosted in February by the GSMA as well as the iF Gold Design Award in Germany. The awards affirmed once more that design and innovation are a key part of HTC's DNA.

In October 2013, the user experience of the HTC One (M7) was enhanced even further with the release of the HTC One Max. A super-large 5.9" Full HD display and metallic construction provides users, especially business people or avid readers, with a superb reading experience and viewing angle. The back of the one-piece metallic casing incorporates a fingerprint scanner for high-precision fingerprint recognition that offers secure login for improved smartphone data protection. Placement on the back of the phone allows for one-handed unlocking and authentication, creating a truly convenient one-touch unlocking mechanism. The HTC One Max also comes with a compact HTC Mini+ Bluetooth smart receiver. A thickness of 7.15mm and T9 keyboard offer users a dialing experience just like using a speaker phone. In addition to using the physical keys on the T9 for dialing, HTC's smart search function can quickly search contacts for a peerless fast dialing and search experience. The 1.5" OLED display is synchronized to HTC One Max incoming calls, missed calls, messages and notifications for swifter response. More importantly, all of these operations can be completed without having to take the HTC One Max out of the user's pocket, backpack or briefcase. In addition, for business people giving presentations, the HTC Mini+ equips a laser pointer and infra-red remote function to integrate with the presentation software to provide business people a very practical tool. The combination of large and small device perfectly combines the functionality of a large form-factor with convenience, demonstrating once again HTC's commitment to optimizing user experience to its highest design principle. Every feature of the product design serves as a testament to HTC's completely user-oriented design philosophy.

In March 2014, the latest flagship model HTC One (M8) was released in London and New York. The M8 elevates craftsmanship to a whole new level. The new one-piece metal casing covers 90% of the device, presenting an immense challenge to antenna design. After extensive design and calibration, the M8 is now the only phone in the world with an all-metal unibody that has passed all carriers testing and is sold simultaneously through 230 carriers worldwide. The ultra-thin HTC One (M8) with its curved edges and brushed metal finish offers the ultimate grip and visual aesthetics. The new generation of HTC BoomSound™ increases 3D sound performance by a further 25%, providing an even more sophisticated sound range and incomparable 3D sound effects. The proprietary Duo Camera can instantly acquire depth-of-view information and provide super-fast focusing (300ms) to capture every exciting moment of the user. The UFocus function can be used to incomparable 3D sound effects. The proprietary Duo Camera can instantly acquire depth-of-view information and provide super-fast focusing (300ms) to capture every exciting moment of the user. The UFocus™ function can be used to alter the focus of the images while all creative photo backgrounds and Seasons animations offer the user an incomparable photo experience. The new Zoe™ integrates all its functions even more intuitively and seamlessly into the snapshot function. The original recording pause function allows users to have more control over their images. All of these advanced camera functions enrich the content and experience offered by HTC's popular Video Highlight dynamic photo album. Due to the increasing importance of exercise and fitness for modern people, the HTC One (M8) has an integrated Smart Sensor Hub that intelligently records all exercise activity of the user. Full integration with Fitbit provides a full record of fitness fun. Combining Motion Launch ™ gestures with the new Sense 6 (6th Sense) and Smart Sensor Hub, M8 is able to recognize gestures and touch control tracks to intelligently launch corresponding functions or apps. Examples include sliding to unlock screen in standby mode, opening the BlinkFeed home screen, opening the function home screen, launching the voice control function, double-tapping the screen to wake, take incoming calls, or pressing the volume control to launch the camera. The new and improved HTC One (M8) incorporates all of these functions without compromising the battery life. More demanding conditions and specifications extend battery life by 40% while the extremepower-saving function increases the standby time to two weeks. Even if battery life is down to 20%, the M8 can still offer 60 hours of standby time. With all of these smart functions, the HTC One (M8) undoubtedly is the pioneer and undisputed leader for the next generation of smartphone applications and user experience.

R&D expenditures in recent years

Unit: NT$ millions

	2013	2012	2014Q1
Worldwide R&D Expenditures	12,543	15,493	3,007
As a Percentage of Worldwide Revenue	6%	5%	9%

Corporate Governance

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

1. Independent Director positions created

In accordance with the Securities and Exchange Law, starting from 2007, HTC elected two independent directors each time at its board re-elections, in order to strengthen the independence and functions of Directors and enhance the operational effectiveness of the Board.

2. Remuneration Committee created

In compliance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or Traded Over-the-Counter" as per Letter No.1000009747 issued by the Financial Supervisory Commission of the Executive Yuan on March 18, 2011, the Board of Directors resolved to adopt the Company's Compensation Committee Charter and the Committee shall consist of three members who are appointed by resolution of the board of directors. The current second remuneration committee members are independent director Mr. Chen-Kuo Lin and independent professional advisor Mr. Ti-Hsiang Wei, per the regulation, the other independent professional advisor will be appointed by the Board by June 18, 2014. The official functions of the Committee are to professionally and objectively evaluate the policies and systems for the compensation of HTC directors, supervisors, and managers, and submit recommendations to the Board of Directors for its reference in decision making.

3. Board of Supervisor proceedings

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

4. Disclosure of information & financial forecasts

HTC has been working diligently to enhance the timeliness and transparency of financial disclosures. In addition to online disclosure of important data related to HTC's business in accordance with regulations, quarterly earnings calls are held for investors every quarter, at which revenue, margin and expense forecasts are provided. Investor teleconferences are also held to keep investors updated on the latest business operations. Apart from regular disclosures, HTC also participates actively in investor forums and conferences in Taiwan and overseas as well as proactively visits major investment houses and investors to enhance communication with the investment community.

5. Stable dividend policies

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

Major Suppliers / Customers Representing at Least 10% of Gross Purchase / Revenue for the Most Recent Two-Year Period

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

Unit: NT$ millions

	2013		
Supplier Code	Amount	%	Relation to HTC
a	22,566	18	None
Others	100,375	82	
Total	122,941	100	

Unit: NT$ millions

	2012		
Supplier Code	Amount	%	Relation to HTC
a	20,780	13	None
Others	139,025	87	
Total	159,805	100	

Unit: NT$ millions

	2014 Q1		
Supplier Code	Amount	%	Relation to HTC
a	4,138	18	None
Others	18,399	82	
Total	22,537	100	

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

Unit: NT$ millions

	2013		
Customer Code	Amount	%	Relation to HTC
Others	203,403	100	None
Total	203,403	100	

Unit: NT$ millions

	2012		
Customer Code	Amount	%	Relation to HTC
Others	289,020	100	None
Total	289,020	100	

Unit: NT$ millions

	2014 Q1		
Customer Code	Amount	%	Relation to HTC
Others	33,121	100	
Total	33,121	100	

Production and Sales for the Most Recent Two-Year Period

Production

Unit: 1,000 units / NT$ millions

	2013		
	Production Capacity	Production Quantity	Production Value
Smartphones	38,550	20,345	129,184
Total	38,550	20,345	129,184

Unit: 1,000 units / NT$ millions

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

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

Sales

Unit: 1,000 units / NT$ millions

	2013			
	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	3,024	19,653	97,233	180,555
Total	3,024	19,653	97,233	180,555

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

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

Principal Contractual Agreements

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

Contractor	Contract Term	Description
Apple, Inc.	November 11, 2012 - November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalty payable as prescribed.
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; 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.

CHAPTER 4

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

1. Information on the Company's Directors, Supervisors, General Manager, Assistant General Managers, Deputy Assistant General Managers, and Managers of All the Company's Divisions and Branch Units

1. Directors and Supervisors:

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

2014.05.15 unit: Share, %

Title	Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Sharing (Note)		Other persons holdingshares in their name(Note)		Principal work experience and academic qualifications	Positions held concurrently in the company and/or and other company	Other executives, Directors and Supervisors who are spouses or within second-degree of kinship		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	Cher Wang	2013. 06.21	2016. 06.20	1999.04.30	32,272,427	3.79%	32,272,427	3.84%	22,391,389	2.66%	0	0.00%	• Bachelor in Economics, University of California, Berkeley. • General Manager of the PC Division, First International Computer, Inc. (FIC)	• Chairman, Via Technologies, Inc. • Director, Formosa Plastics Corporation • Chairman (Representative), H.T.C. (B.V.I) Corp. • Chairman (Representative), HTC Investment One (BVI)Corporation • Chairman (Representative), Chander Electronics Corp. • Non-executive Director, Television Broadcasts Limited Director, • Director, Hon-Mou Investment Co., Ltd. • Director, Way-Chih Investment Co., Ltd. • Director, Way-Lien Investment Co., Ltd. • Director, Hsin-Tong Investment Co., Ltd. • Director, Kun-Chang Investment Co, Ltd. • Director, Li-Way Investment Co., Ltd. • Director, Chuan-Te Investment Co., Ltd.	Director	Wen-Chi Chen	Spouse
Director	HT Cho	2013. 06.21	2016. 06.20	2001.04.23	145,530	0.02%	145,530	0.02%	0	0.00%	0	0.00%	• Electronic Engineering, National Taipei Institute of Technology. • EMBA, National Chiao Tung University • President & CEO, HTC Corporation. • Consulting Engineer, Digital Equipment Corporation.	• Chairman, HTC Social Welfare Foundation. • Chairman, HTC Education Foundation. • Director, Chunghwa Telecom Foundation. • General Manager, Atrust Corporation • Director, China University of Technology • Director, Asia Pacific Fuel Cell Technologies, Ltd. • Chairman, Taiwan Chief Executive Officer Club for Social Benefit	None	None	None
Director	Wen-Chi Chen	2013. 06.21	2016. 06.20	1999.04.30	22,391,389	2.63%	22,391,389	2.66%	32,272,427	3.84%	0	0.00%	• MSCS, The California Institute of Technology. • President, Symphony Laboratories.	• President & Director, VIA Technologies, Inc. • Chairman (Representative), Xander International Corp. • Non-executive Director, Television Broadcasts Limited • Director, Hon-Mou Investment Co., Ltd. • Director, Way-Chih Investment Co., Ltd. • Director, Way-Lien Investment Co., Ltd. • Director, Hsin-Tong Investment Co., Ltd. • Director, Kun-Chang Investment Co, Ltd. • Director, Li-Way Investment Co., Ltd. • Director, Chuan-Te Investment Co., Ltd.	Chairman	Cher Wang	Spouse

(Continued)

Title	Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Sharing (Note)		Other persons holdingshares in their name(Note)		Principal work experience and academic qualifications	Positions held concurrently in the company and/or and other company	Other executives, Directors and Supervisors who are spouses or within second-degree of kinship		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	David Bruce Yoffie	2013. 06.21	2016. 06.20	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• B.A. Brandeis University • M.A., Ph.D. Stanford University for academic qualification • Director, Charles Schwab • Director, Spotfire • Director, E Ink	• Max and Doris Starr Professor at Harvard Business School • Director, Intel Corporation • Director, The National Bureau of Economic Research • Director, MindTree Ltd. • Director, Financial Engines, Inc. • Director, TiVo Inc.	None	None	None
Independent Director	Chen-Kuo Lin	2013. 06.21	2016. 06.20	2007.06.20	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• Bachelor in Economics, National Taiwan University. • Advanced study at the Department of Economics, Oklahoma State University. • Advanced study at the Department of Economics, Harvard University. • Chairman, Board of Tunghai University. • Minister, Ministry of Finance, Executive Yuan. • Chairman, Taiwan External Trade Development Council. (TAITRA) • Chairman, Taiwan Asset Management Corporation. • Professor, Department of Economics in National Taiwan University. • Chairman, Taiwan-Hong Kong Economic and Cultural Cooperation Council	• Independent director and Compensation Committee member, Taiwan High Speed Rail Corporation. • Chairman, Angel Hearts Family Social Welfare Foundation.	None	None	None
Independent Director	Josef Felder	2013. 06.21	2016. 06.20	2007.06.20	133,985	0.02%	229,985	0.03%	0	0.00%	0	0.00%	• Graduate of Advanced Management Program (AMP), Harvard Business School, Boston • Deputy Director, Crossair • Chief Executive Officer, FIG (Flughafen Immobilien Gesellschaft) • Chief Executive Officer, Unique (Flughafen Zurich AG)	• Independent director, Careal Holding AG, Zurich • Independent director, AMAG, Zürich • Independent director, Zingg-Lamprecht AG, Zurich • Independent director, Edelweiss Air AG, Zurich • Chairman, Gutsbetrieb Oetlishausen AG, Hohentannen • Chairman, Pro Juventute, Zurich • Independent director, Luzerner Kantonalbank AG, Lucerne • Independent director, Victoria Jungfrau Collection, Interlaken • Chairman, Flaschenpost AG, Zürich • Chairman, The Nuance Group • Independent Director, Zino Davidoff SA, Fribourg	None	None	None
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	2013. 06.21	2016. 06.20	1999.04.30 2006.04.13	43,819,290	5.14%	43,819,290	5.21%	0	0.00%	0	0.00%	• Ph.D in Material Science and D.Eng in Electrical Engineering, UCLA. • Executive Vice President, Lam Research Co., Ltd.	• Director, IC Broadcasting Co., Ltd • Vice President, Via Technologies, Inc. • Director, Chinese Christian Faith, Hope and Love Foundation. • Director, Via Faith, Hope and Love Foundation.	None	None	None
Supervisor	Huang-Chieh Chu	2013. 06.21	2016. 06.20	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• MBA, University of Toronto, Canada • LL.B., Department of Law, National Taiwan University • Director and President, Taiwan Teleservices & Technologies Co., Ltd. • Supervisor, Taiwan Fixed Network Co., Ltd. • Vice President, Consumer Business Group of Taiwan Mobile Co., Ltd. • Vice President, Citibank, N.A., Taipei Branch • Director, KG Telecommunications Co., Ltd.	• Chief Administrative Officer, Via Faith, Hope and Love Foundation.	None	None	None

Note: Shareholding as of 2014.04.21

(2) Major shareholders of institutional shareholders

2014.05.15

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

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

The Institutional Shareholder is a foundation, no major shareholders.

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

2014.05.15

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

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

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

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

2014.05.15 Unit: Share; %

Title	Name	Date Elected	Shareholding (note)		Spouse & Minor Shareholding (note)		Other persons holding shares in their name (note)		Principal work experience and academic qualifications	Positions held concurrently in any other company	Managers with spouses or relatives within second-degree of kinship		
			Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chief Executive Officer & President	Peter Chou	2004.04.30	4,558,843	0.54%	1,190,038	0.14%	0	0.00%	• Bachelor in Electronic Engineering, National Taiwan Ocean University. • Director, Server Platform Design Division, Digital Equipment Corporation.	• Director (Representative), High Tech Computer Asia Pacific Pte. Ltd. • Chairman (Representative), HTC Investment Corporation • Chairman (Representative), HTC I Investment Corporation • Director (Representative), S3 Graphics Co, Ltd. • Director (Representative), HTC EUROPE CO. LTD. • Director (Representative), HTC America, Inc. • Director (Representative), High Tech Computer (H.K.) Limited • Director (Representative), HTC Philippines Corp. • Director, High Tech Computer Corp. (Suzhou) • Chairman (Representative), Huada Digital Corporation	None	None	None
President of Engineering and Operations	Fred Liu	2006.04.24	1,750,641	0.21%	500,000	0.06%	0	0.00%	• Bachelor in Electrical Engineering, Tatung University. • Director, PC Server Engineering Division, Digital Equipment Corporation.	• Director (Representative), High Tech Computer Asia Pacific Pte. Ltd. • Director (Representative), HTC Investment Corporation • Director (Representative), HTC I Investment Corporation • Chairman, High Tech Computer Corp. (Suzhou) • Chairman, HTC Communication Co., Ltd. • Director (Representative), HTC HK, Limited • Director (Representative), S3 Graphics Co, Ltd. • Executive Director, HTC Corporation (Shanghai WGQ) • Director (Representative), HTC EUROPE CO. LTD. • Director (Representative), HTC Belgium BVBA/SPRL • Director (Representative), HTC America, Inc. • Director (Representative), HTC NIPPON Corporation • Director, HTC Electronics (Shanghai) Co., Ltd. • Director (Representative), HTC Philippines Corp.	None	None	None
President of Global Sales & Chief Financial Officer	Chialin Chang	2012.04.16	0	0.00%	0	0.00%	0	0.00%	• PhD in Electrical Engineering, Princeton University. • MBA, The Wharton School of the University of Pennsylvania. • Partner, Goldman Sachs. • Engineer, Motorola (US).	• Director (Representative), HTC Holding Cooperatief U.A. • Director (Representative), HTC America Holding, Inc. • Director (Representative), HTC America Content Services, Inc. • Director (Representative), HTC Investment Corporation • Director (Representative), HTC I Investment Corporation • Director (Representative), HTC Luxembourg S.a.r.l. • Director (Representative), Dashwire, Inc. • Director (Representative), Inquisitive Minds, Inc.	None	None	None
Chief Engineering Officer	David Chen	2007.05.08	395,273	0.05%	293,901	0.03%	0	0.00%	• Bachelor in Electronic Engineering, National United College. • Principal Engineer, Digital Equipment Corporation.	• Chairman, HTC Communication Technologies (Shanghai) Limited • Chairman (Representative), Communication Global Certification Inc.	None	None	None
Chief Marketing Officer	Ben Ho	2013.02.19	0	0.00%	3,000	0.00%	0	0.00%	• MBA, Stamford Group of Colleges, Singapore • Vice President of Business Strategy & Marketing, Far EasTone Telecommunications • Vice President and Chief Marketing Officer, Motorola Asia Pacific Ltd.	• Director (Representative), Huada Digital Corporation	None	None	None
General Counsel	Grace Lei	2007.05.08	0	0.00%	0	0.00%	0	0.00%	• Master in Laws, University of Pennsylvania. • Master in Laws, National Taiwan University. • Partner, Winkler Partners Attorneys at Law of Taiwan and Foreign Legal Affairs. • Partner, Tsai, Lee & Chen Co., Ltd.	• Director (Representative), S3 Graphics Co, Ltd.	None	None	None
Vice President, Talent Management	Crystal Liu	2012.04.24	0	0.00%	0	0.00%	0	0.00%	• MBA, Oklahoma City University. • HR Director, DuPont • APAC Business Group HR Manager, Intel Microelectronics Asia Ltd. • HR Manager, BRS Nike Taiwan	• General Manager, HTC Middle East FZ-LLC	None	None	None
President of North America	Jason Mackenzie	2007.09.26	44,903	0.01%	0	0.00%	0	0.00%	• Bachelor in Business Administration, Point Loma Nazarene University. • Vice President, Siemens Communications.	• Director (Representative), HTC Communication Canada, Ltd.	None	None	None

(Continued)

			Shareholding (note)		Spouse & Minor Shareholding (note)		Other persons holding shares in their name (note)				Managers with spouses or relatives within second-degree of kinship		
Title	Name	Date Elected	Shares	%	Shares	%	Shares	%	Principal work experience and academic qualifications	Positions held concurrently in any other company	Title	Name	Relation
President of EMEA	Philip Blair	2013.05.01	67,924	0.01%	0	0.00%	0	0.00%	• MBA, Durham University, UK • Head of Handset Commercialisation, Orange Group (London)	• Director (Representative), HTC Communication Sweden AB • Director (Representative), HTC Poland sp z.o.o • Director (Representative), HTC Germany GmbH • Director (Representative), HTC Iberia S.L.U. • Director (Representative), HTC Italia SRL • Director (Representative), HTC RUS LLC. • Director (Representative), HTC Nordic ApS • Director (Representative), HTC Norway AS. • Director (Representative), HTC Middle East FZ-LLC	None	None	None
President of China & North Asia	Jack Tong	2007.07.01	26,858	0.00%	0	0.00%	0	0.00%	• Bachelor in Civil Engineering, Feng Chia University. • Chief Executive Officer, Dopod International Corp.	• Chairman (Representative), HTC Innovation Limited • Director, HTC Communication Co., Ltd.	None	None	None
President of South Asia	Jackson Yang	2013.07.05	0	0.00%	0	0.00%	0	0.00%	• Bachelor in Business Administration, Loyola University of Chicago • Head of iPhone & iPad Sales-SEA, Apple Singapore	• Director (Representative), PT. High Tech Computer Indonesia • Director (Representative), HTC Malaysia Sdn. Bhd • Director (Representative), HTC (Thailand) Limited	None	None	None
Vice President, Emerging Devices	Michael Woodward	2012.10.26	0	0.00%	0	0.00%	0	0.00%	• MBA, Chapman University, The George L. Argyros School of Business and Economics • Vice President, Device and Accessory Portfolio of AT&T	None	None	None	None
Vice President, Procurement & Supply Engineering	Simon Lin	2008.06.01	250	0.00%	0	0.00%	0	0.00%	• Master in Electrical Engineering, University of Texas. • Director, R&D, Digital Equipment Corporation.	None	None	None	None
Vice President, Hardware Engineering	WH Liu	2008.06.01	58,675	0.01%	0	0.00%	0	0.00%	• Master in Electronic Engineering, National Taiwan University of Science and Technology. • Senior Manager, WM System Architecture Design.	None	None	None	None
Vice President, Wireless Software	Simon Hsieh	2008.06.01	8,000	0.00%	0	0.00%	0	0.00%	• Master in Computer Science and Information Engineering, National Taiwan University • Assistance Manager, ASUS.	• Director (Representative), Communication Global Certification Inc.	None	None	None
Vice President, MASD	Steve Wang	2008.06.01	15,500	0.00%	6,000	0.00%	0	0.00%	• Master in Information Science, Azusa Pacific University. • VP, IA Style Inc.	None	None	None	None
Vice President, MFG Operation	CS Wang	2001.03.12	76,448	0.01%	0	0.00%	0	0.00%	• MBA, Michigan State University. • Vice President, Production Enterprise, RCA.	• Chairman, HTC Electronics (Shanghai) Co., Ltd. • Director, High Tech Computer Corp. (Suzhou) • Director, HTC Communication Co., Ltd.	None	None	None
Vice President, Product Quality Assurance	Georges Boulloy	2010.12.01	44,200	0.01%	0	0.00%	0	0.00%	• Master in Physics Engineering, Ecole des Mines. • VP & Head of Sourcing & Partner Management, Sony Ericsson Mobile Communications. • Senior VP wireless BU, Quanta Computers.	None	None	None	None
Associate Vice President, Finance & Accounting	Edward Wang	2009.03.10	0	0.00%	0	0.00%	0	0.00%	• MBA, Tunghai University. • VP, Hotung Group.	• Supervisor (Representative), HTC Investment Corporation • Supervisor (Representative), HTC I Investment Corporation • Director (Representative), HTC (Australia and New Zealand) PTY LTD • Director (Representative), HTC India Private Limited • Director (Representative), HTC Malaysia Sdn. Bhd. • Director (Representative), HTC Belgium BVBA/SPRL • Director (Representative), HTC Nordic ApS • Director (Representative), HTC Iberia S.L.U. • Director (Representative), HTC Poland sp zo.o. • Director (Representative), HTC Communication Canada, Ltd. • Director (Representative), HTC Norway AS. • Director (Representative), HTC RUS LLC. • Director (Representative), HTC Communication Sweden AB • Director (Representative), One & Company Design, Inc. • Director (Representative), HTC NIPPON Corporation • Supervisor, HTC Communication Co., Ltd. • Supervisor (Representative), Huada Digital Corporation • Supervisor (Representative), PT. High Tech Computer Indonesia • Director (Representative), HTC (Thailand) Limited • Director (Representative), HTC Middle East FZ-LLC	None	None	None

(Continued)

Title	Name	Date Elected	Shareholding (note)		Spouse & Minor Shareholding (note)		Other persons holding shares in their name (note)		Principal work experience and academic qualifications	Positions held concurrently in any other company	Managers with spouses or relatives within second-degree of kinship		
			Shares	%	Shares	%	Shares	%			Title	Name	Relation
Associate Vice President, Finance & Accounting	James Chen	2009.02.10	200	0.00%	0	0.00%	0	0.00%	• MBA, National Chen-Chi University. • Manager, TSMC. • BU Controller, LITE-ON.	• Supervisor (Representative), Communication Global Certification Inc. • Director (Representative), HTC America Innovation, Inc. • Supervisor, HTC Communication Technologies (Shanghai) Limited • Supervisor, HTC Corporation (Shanghai WGO) • Supervisor, HTC Electronics (Shanghai) Co., Ltd. • Chairman(Representative), Yoda Co., Ltd. • Director (Representative), HTC (Australia and New Zealand) PTY LTD • Director (Representative), HTC India Private Limited	None	None	None

Note：Shareholding as of 2014.04.21 (including shares under trust with discretion reserved.)

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

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

2013；Unit ：NT$ thousands

Title	Name	Remuneration paid to Direcotrs										Compensation earned as employee of HTC subsidiary affiliates														
		Salary (A)(Note 1)		Retirement pay (B)		Compensation from profit sharing (C) (Note 2)		Allowance (D) (Note 3)		Total Remuneration (A+B+C+D) as a percentage of net income (%) (Note 7)		Salary,Bonuses, and Allowance (E) (Note4)		Retirement pay (F)		Employee profit sharing (G) (Note5)				Exercisable Employee Stock Options (H) (Note 6)		Restricted employee shares (Note 10)		Total Compensation (A+B+C+D+E+F+G) as a percentage of net income (%) (Note 7)		Compensation paid to Directors from non-subsidiary affiliates (Note 9)
		HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC		All Consolidated Entities (Note 8)		HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	HTC	All Consolidated Entities (Note 8)	
																Cash	Stock	Cash	Stock							
Chairman	Cher Wang	0	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0
Director	HT Cho	2,644	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0
Director	Wen-Chi Chen	0	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0
Director	David Bruce Yoffie	11,857	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0
Independent Director	Chen-Kuo Lin	3,519	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0
Independent Director	Josef Felder	9,263	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0
Director (Note a)	Rick Tsai	1,750	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0
Director (Note b)	Tan Ho-Chen	1,769	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0

Note 1: Directors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)
Note 2: The amount proposed for distribution to Directors as compensation, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year's earnings distribution proposal.
Note 3: Expenses relating to business execution by directors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).
Note 4: All salary, allowances, severance pay, various bonuses, cash rewards, transportation allowances, special allowances, various material benefits, accommodations, and personal cars received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers and employees) in the preceding fiscal year.
Note 5: Planned amount of employee bonuses when Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) received employee bonuses (including stock and cash bonuses) in the most recent fiscal year. Since there's a net loss in fiscal 2013, it is approved by the Board of Directors not to distribute employee bonuses.
Note 6: Number of shares represented by employee stock warrants (not including the portion already exercised) received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) up to the date of printing of this annual report.
Note 7: Since there's a net loss in fiscal 2013, the percentage in this column is not applicable.
Note 8: Total amount of all remunerations paid to Directors by all consolidated entities (including HTC).
Note 9: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by Directors in their capacity as Director, Supervisor, or managerial officer of a non-subsidiary affiliate.
Note 10: Since the Company did not issue restricted employee shares up to the date of printing of this annual report, the number in this column is not applicable.

Note a: Rick Tsai was appointed on 21 June2013, and resigned on 24 January 2013.
Note b: Tan Ho-Chen resigned on 21 June 2013.

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

(2) Remuneration paid to Supervisors

2013；Unit：NT$ thousands

Title	Name	Remuneration paid to Supervisors: Salary (A) (Note 1): HTC	Salary (A) (Note 1): All Consolidated Entities (Note 5)	Compensation from profit sharing (B) (Note 2): HTC	Compensation from profit sharing (B) (Note 2): All Consolidated Entities (Note 5)	Allowance (C) (Note 3): HTC	Allowance (C) (Note 3): All Consolidated Entities (Note 5)	Total Remuneration (A+B+C) as a percentage of net income (%) (Note 4): HTC	Total Remuneration (A+B+C) as a percentage of net income (%) (Note 4): All Consolidated Entities (Note 5)	Compensation paid to Supervisors from non-subsidiary affiliates (Note 6)
Supervisor	Huang-Chieh Chu	1,759	0	0	0	0	0	N/A	N/A	0
Supervisor	Way-Chih Investment Co., Ltd.	1,944	0	0	0	0	0	N/A	N/A	0

Note 1: Supervisors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)
Note 2: The amount proposed for distribution to Supervisors as compensation, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year's earnings distribution proposal.
Note 3: Expenses relating to business execution by Supervisors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).
Note 4: Since there's a net loss in fiscal 2013, the percentage in this column is not applicable.
Note 5: The total amount of all remunerations paid to Supervisors by all consolidated entities (including HTC).
Note 6: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by Supervisors in their capacity as Director, Supervisor, or managerial officer of a non-subsidiary affiliate.

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

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

2013；Unit：NT$ thousands

		Salary (A) (Note 1)		Retirement pay (B) (Note 2)		Bonus & Perquisite (C) (Note 3)		Employee profit sharing (D) (Note 4)				Total Remuneration (A+B+C+D) as a percentage of net income (%) (Note 6)		Exercisable Employee Stock Options (Note 5)		Restricted employee shares (Note 9)		Compensation paid to President & Vice Presidents from non-subsidiary affiliates (Note 8)
								HTC		All Consolidated Entities (Note 7)								
Title	Name	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	Cash	Stock	Cash	Stock	HTC	All Consolidated Entitie (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	
Chief Executive Officer & President	Peter Chou																	
President of Engineering and Operations	Fred Liu																	
President of Global Sales & Chief Financial Officer	Chialin Chang																	
Chief Engineering Officer	David Chen																	
Chief Marketing Officer (Note a)	Ben Ho																	
General Counsel	Grace Lei																	
Vice President, Talent Management	Crystal Liu																	
President of North America	Jason Mackenzie																	
President of EMEA (Note b)	Philip Blair																	
President of China & North Asia	Jack Tong																	
President of South Asia (Note c)	Jackson Yang																	
Vice President, Emerging Devices	Michael Woodward	73,020.20	130,726.94	1,794.74	2,544.82	315,685.15	394,119.84	0	0	0	0	N/A	N/A	2,430 (thousands shares)	3,160 (thousands shares)	N/A	N/A	0
Vice President, Procurement & Supply Engineering	Simon Lin																	
Vice President, Hardware Engineering	WH Liu																	
Vice President, Wireless Software	Simon Hsieh																	
Vice President, MASD	Steve Wang																	
Vice President, MFG Operation	CS Wang																	
Vice President, Product Quality Assurance	Georges Boulloy																	
Associate Vice President, Finance & Accounting	Edward Wang																	
Associate Vice President, Finance & Accounting	James Chen																	
Former Senior Vice President and Head of Design (Note d)	Scott Croyle																	

Note 1: General Manager and Assistant General Managers' compensations in the most recent fiscal year include salary, allowances, and severance pay.
Note 2: Pensions funded according to applicable law.
Note 3: Various awards, bonuses, transportation allowances, special allowances, special subsidies, accommodations, and personal cars by General Manager and Assistant General Managers in the most recent fiscal year.
Note 4: The amount proposed to distribute to General Manager and Assistant General Managers as employee bonus (including stock and cash bonuses), as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year's earnings distribution proposal. Since there's a net loss in fiscal 2013, it is approved by the Board of Directors not to distribute employee bonuses.
Note 5: Number of shares represented by employee stock warrants (not including the portion already exercised) received by General Manager and Assistant General Managers up to the date of printing of this annual report.
Note 6: Since there's a net loss in fiscal 2013, the percentage in this column is not applicable.
Note 7: Total amount of all remunerations paid to General Manager and Assistant General Managers by all consolidated entities (including HTC).
Note 8: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by General Manager and Assistant General Managers in their capacity as director, supervisor, or managerial officer of a non-subsidiary affiliate.
Note9: Since the Company did not issue restricted employee shares up to the date of printing of this annual report, the number in this column is not applicable.
Note 10: This chart lists persons who have served as HTC's General Manager and Assistant General Managers on 31 December 2013.

Note a: Ben Ho was appointed as insider manager on 19 February 2013.
Note b: Philip Blair was appointed as insider manager on 1 May 2013.
Note c: Jackson Yang was appointed as insider manager on 5 July 2013.
Note d: Scott Croyle resigned on 15 May 2014.

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

Remuneration paid to General Manager and Assistant General Managers

Scale of remunerations to managers of the Company	Name	
	HTC (Note)	All Consolidated Entities (Note)
Under NT$ 2,000,000		
NT$ 2,000,000 ~ NT$ 4,999,999		
NT$ 5,000,000 ~ NT$ 9, 999,999	Crystal Liu、Edward Wang、James Chen	Crystal Liu、Edward Wang、James Chen、Jackson Yang
NT$ 10,000,000 ~ NT$ 14, 999,999		
NT$ 15,000,000 ~ NT$ 29, 999,999	Simon Lin、CS Wang、Steve Wang、Georges Boulloy、Jack Tong、WH Liu、Simon Hsieh、Ben Ho、Grace Lei	Simon Lin、CS Wang、Steve Wang、Georges Boulloy、Jack Tong、WH Liu、Simon Hsieh、Ben Ho、Grace Lei、Scott Croyle、Philip Blair
NT$ 30,000,000 ~ NT$ 49, 999,999	Fred Liu、David Chen、Chialin Chang	Fred Liu、David Chen、Chialin Chang、Jason Mackenzie、Michael Woodward
NT$ 50,000,000 ~ NT$ 99, 999,999	Peter Chou	Peter Chou
Over NT$ 100,000,000		
Total	16	21

Note： This chart lists persons who have served as HTC's General Manager and Assistant General Managers on 31 December 2013.

(4) Employee profit sharing granted to management team

Since there's a net loss in fiscal 2013, it is approved by the Board of Directors not to distribute employee bonuses.

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

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

	Total remuneration as a percentage of net income				Increases or decreases % (Note)	
	2013 (Note)		2012			
Title	HTC	All Consolidated Entities	HTC	All Consolidated Entities	HTC	All Consolidated Entities
Directors	N/A	N/A	0.19%	0.18%	N/A	N/A
Supervisors	N/A	N/A	0.022%	0.021%	N/A	N/A
President and Vice Presidents	N/A	N/A	2.54%	3.50%	N/A	N/A

Note： Since there's a net loss in fiscal 2013, the percentage in this column is not applicable.

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

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

1. The state of operations of the Board of Directors:

The sixth Board of Directors conducted two (A) meetings in 2013. The Directors and Supervisors' attendance status is as follows :

Title	Name	Attendance in Person B	By Proxy	Attendance Rate in Person (%)【B / A】	Notes
Chairman	Cher Wang	2	0	100%	
Director	Wen-Chi Chen	2	0	100%	
Director	HT Cho	1	1	50%	
Director	David Bruce Yoffie	2	0	100%	
Director	Tan Ho-Chen	2	0	100%	Tan Ho-Chen left office on 2013.06.21 due to the re-election upon the expiration of term.
Independent Director	Chen-Kuo Lin	2	0	100%	
Independent Director	Josef Felder	2	0	100%	
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	2	0	100%	
Supervisor	Huang-Chieh Chu	2	0	100%	

The seventh Board of Directors conducted seven (A) meetings in 2013. The Directors and Supervisors' attendance status is as follows :

Title	Name	Attendance in Person B	By Proxy	Attendance Rate in Person (%)【B / A】	Notes
Chairman	Cher Wang	7	0	100%	
Director	Wen-Chi Chen	6	1	85.71%	
Director	HT Cho	7	0	100%	
Director	David Bruce Yoffie	2	4	28.57%	
Director	Rick Tsai	6	1	85.71%	Rick Tsai was appointed on 2013.06.21 and resigned on 2014.01.24 due to personal reasons.
Independent Director	Chen-Kuo Lin	6	1	85.71%	
Independent Director	Josef Felder	3	4	42.86%	
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	7	0	100%	
Supervisor	Huang-Chieh Chu	7	0	100%	

Other matters to be included：

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

2. Directors' abstention from discussion due to conflicts of interests：

(1) Independent Director Chen-Kuo Lin and Independent Director Josef Felder
Content of Proposal：To review and discuss the independent director nominee list, proposed by the Board of Directors, for the election at the 2013 Annual General Shareholders Meeting.
Resaon for abstention for voting participation：Independent Director Chen-Kuo Lin and Josef Felder are nominated candidates for Independent Directors.

(2) Director HT Cho and Independent Director Chen-Kuo Lin
Content of Proposal：Proposal on the appointment of the Company's Compensation Committee members.
Resaon for abstention for voting participation：Director HT Cho and Independent Director Chen-Kuo Lin are nominated candidates for the Company's Compensation Committee members.

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

(1) At the time of end-of-term elections for Directors and Supervisors in the 2013 fiscal year, HTC selected two Independent Directors in accordance with the provisions of the Securities and Exchange Act in order to strengthen the independence and functions of Directors and enhance the operational effectiveness of the Board. In 2008, the "Guidelines for Corporate Governance" were completed and adopted, guaranteeing that the Board of Directors has the authority to independently supervise corporate operations and to make all decisions necessary to fulfill its responsibilities to shareholders and to society.

(2) In compliance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or Traded Over-the-Counter" as per Letter No.1000009747 issued by the Financial Supervisory Commission of the Executive Yuan on March 18, 2011, the Board of Directors resolved to adopt the Company's Compensation Committee Charter and the Committee shall consist of three members who are appointed by resolution of the board of directors. The current second remuneration committee members are independent director Mr. Chen-Kuo Lin and independent professional advisor Mr. Ti-Hsiang Wei, per the regulation, the other independent professional advisor will be appointed by the Board by June 18, 2014. The official functions of the Committee are to professionally and objectively evaluate the policies and systems for the compensation of HTC directors, supervisors, and managers, and submit recommendations to the Board of Directors for its reference in decision making.

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

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

2. Supervisors' participation in Board of Directors meetings

The sixth Board of Directors conducted two (A) meetings in 2013. The Supervisors' attendance status is as follows :

Title	Name	Attendance in Person B	Attendance Rate (%) 【B / A】	Notes
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	2	100%	
Supervisor	Huang-Chieh Chu	2	100%	

The seventh Board of Directors conducted seven (A) meetings in 2013. The Supervisors' attendance status is as follows :

Title	Name	Attendance in Person B	Attendance Rate (%) 【B / A】	Notes
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	7	100%	
Supervisor	Huang-Chieh Chu	7	100%	

Other matters to be included:

1. **Composition and responsibilities of Supervisors:**
The structure of the Supervisors' Meetings at HTC is well established and it carries out some functions at the audit committee.
(1) Supervisor communication with employees and shareholders (e.g., channels and methods of communication) Supervisors can make use of channels such as Supervisors Meetings, Board of Directors meetings, Shareholders Meetings, and internal audit reports to communicate with management-level officers and with shareholders.

(2) Supervisor communication with Chief Internal Auditor and CPAs (e.g., financial and operational matters on which they communicate, their methods, and results)

HTC Supervisors communicate through their regular quarterly Supervisor Meetings with HTC's financial, legal, and internal audit officers, who report to the Supervisors on issues such as risk management, major litigations, and internal audit reports.

Based on the principle of sound, conservative accounting, HTC's Supervisors and CPAs regularly undertake joint reviews of major account items in the financial statements to assess the reasonableness of basic assumptions underlying various allowances and reserves. Assessments are also performed and reserves taken against potential liabilities associated with intellectual property risks in order to reduce the impact on HTC's finances.

Supervisors also hold regular private meetings with CPAs. Supervisors must first review and be satisfied with the CPA's independence and professional fees before such matters are submitted to the Board of Directors for resolution.

In 2013, the management team continuously emphasized and provided full support on corporate governance. Headquarters actively reviewed and enhanced the processes of supervision and management of subsidiaries, and developed global policies and procedures. All departments in the company conducted risk-oriented internal control assessment to evaluate the controls' efficiency and effectiveness, for the purpose of improving the internal control system. In the area of internal control self-assessment, HTC has asked all departments to evaluate the efficiency and effectiveness of their controls' design and execution to ensure the concreteness and transparency of the internal control statement. All departments were required to issue individual internal control statements based on their evaluation results and the company would issue the internal control statement based on individual department evaluation results.

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

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

Item	Implementation Status	Reason for Non-implementation
1. Shareholding Structure & Shareholders' Rights		
(1) Method of handling shareholder suggestions or complaints	To protect shareholders' interests, HTC has appointed spokesperson and acting spokesperson to properly handle any questions, suggestions, or disputes involving shareholders.	None
(2) The Company's understanding of major shareholders and the ultimate owners of these major shareholders	The Company has a good understanding of its major shareholders through shareholder registers provided by stock agents at book closures. HTC also provides information regularly on pledges and the increase and decrease in shareholdings of shareholders with a more than 10% stake in the company.	None
(3) Risk management mechanism and "firewalls" between the Company and its affiliates	The division of responsibilities between HTC and its affiliates with respect to management of personnel, resources, and finances is clear. Risk assessments are rigorously performed and appropriate firewalls have been established. HTC conducts business with affiliates based on the principles of fairness and reasonableness and fully observe the operating Procedures for transactions with Specific Companies, Enterprise Groups and Related Parties and other related regulations. Terms and conditions, pricing, and payment methods are clearly prescribed in contracts to avoid non-arms-length transactions and financial tunneling. When it is necessary to eliminate non-competition restrictions on directors and managerial officers, requests are duly submitted to the Shareholders' Meeting and Board for approval.	None
2. Composition and Responsibilities of the Board of Directors		
(1) Independent Directors	At the end-of-term elections for Directors and Supervisors at the 2013 ordinary Shareholders' Meeting, HTC elected two Independent Directors in accordance with the provisions of the Securities and Exchange Act; the number of Independent Directors exceeds onefifth of the total number of Directors.	None
(2) Regular evaluation of external auditors' independence	In 2008, HTC started to have its Supervisors review the independence of CPAs on an annual basis. Prior to submitting a proposal to change CPA to the Board, the CPA will be interviewed and his credentials reviewed by the Supervisors to assess his independence.	None
3. Communication with Stakeholders	HTC provides detailed contact information, including telephone numbers and email addresses, in the "contact us" section of its corporate website. We also have personnel in place to exclusively deal with messages to the spokesperson and investor mailboxes so that various interested parties will have channels to communicate with HTC.	None
4. Information Disclosure		
(1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance	HTC has both Chinese and English websites. Investor information pages provide information on financial and business issues and corporate governance, while product information pages provide information relating to our products and services.	None
(2) Other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)	HTC has English and Chinese investor relations websites. Dedicated personnel have been assigned to collect and update information to websites. Chief Financial Officer Chialin Chang has been appointed spokesperson and a spokesperson email address has been established. An investors conference is convened online each quarter. Recording and presentation are posted on the company website after the conference.	None
5. Operation of the Company's Nomination Committee, or other functional committees of the Board of Directors	In compliance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or Traded Over-the-Counter" as per Letter No.1000009747 issued by the Financial Supervisory Commission of the Executive Yuan on March 18, 2011, the Board of Directors resolved to adopt the Company's Compensation Committee Charter and the Committee shall consist of three members who are appointed by resolution of the board of directors. The current second remuneration committee members are independent director Mr. Chen-Kuo Lin and independent professional advisor Mr. Ti-Hsiang Wei, per the regulation, the other independent professional advisor will be appointed by the Board by June 18, 2014. The official functions of the Committee are to professionally and objectively evaluate the policies and systems for the compensation of HTC directors, supervisors, and managers, and submit recommendations to the Board of Directors for its reference in decision making.	None
6. In 2008, HTC adopted the "Guidelines for Corporate Governance". Its provisions are based on the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies, and were drafted with reference to the corporate governance practices of companies in Taiwan and abroad with outstanding records in that area. Its purpose is to ensure that the Board has the authority to independently supervise corporate operations and to make all decisions necessary to fulfill its responsibilities to shareholders and society.		

(Continued)

Item	Implementation Status
7. Other important information helpful to understanding HTC's corporate governance practices:	
(1) Employee rights and interests and employee care	HTC's employee code of conduct provides rules and guidelines for employees to follow when involved in company operations. All employees of the company and its branches and subsidiaries, regardless of their position, level, or location, need to abide by this code of conduct. Any unlawful conduct, either at the company or otherwise is prohibited. HTC is committed to providing a safe and healthy work environment, to respecting individuals and offering fair equality of opportunity, and to protecting company assets and personal information. In Relations with Customers and Suppliers, HTC commits to maintaining long-term relationships on a fair and reasonable basis in order to create win-win partner relationships. In the Conflicts of Interest section, HTC provides principles of conduct to guide employees. HTC's hiring policies comply with the relevant laws and regulations and provide fair opportunities to applicants. Hiring decisions are based on HTC's operational needs, nature of the work, and applicants' abilities. Fair opportunities are provided to both applicants and employees. There will be absolutely no discrimination on the basis of nonwork-related factors, such as race, skin color, social position, language, belief, religion, political attillation, family origin, gender, sexual orientation, marital status, appearance, facial features, mental or physical disabilities, previous union affiliation, or any other factor protected by government order. HTC management adheres firmly to the principles of respect for the individual, good faith, and responsibility. These principles are applied (but not limited) to recruitment, hiring, training, promotion, pay scales, benefits, transfers, and community activities. HTC is committed to providing employees with a working environment free of discrimination or harassment (including sexual harassment). Any form of speech or conduct intended to incite hatred, conduct which could lead to accidental injury, or discrimination, will be immediately reported to the responsible department for investigation and punishment. In addition to complying with legal requirements, HTC respects the privacy of its employees and protects their personal information, and never arbitrarily discloses personal data of employees. Employees are also expected to abide by this principle in their interactions, and to avoid discussing private matters or secret information of others (including but not limited to salary and bonus information).
(2) Investor relations	HTC carries out its responsibility in the area of investor relations by endeavoring to enhance the transparency and timeliness of information disclosure. In addition to immediate announcement of material information and information disclosure, each quarter investor/press conferences are held, with an average of more than 100 institutional investors from Taiwan and abroad participating. Information is also uploaded to the company website simultaneously. In addition to the regularly scheduled information disclosures above, HTC also actively participates in investment seminars held by local and overseas securities firms and investor/press conferences; it also arranges meetings with domestic and foreign investors in order to further explain financial figures and operational results that have already been publicly released. Also, more than ten international securities houses routinely publish analyst reports on HTC, providing investors with independent, professional investment analyses. HTC's investor relations activities in 2013, were as follows: Throughout the year, HTC frequently participated in investor conferences in Taiwan, Hong Kong, Singapore, New York, and Beijing, and periodically visited main investors in the European, American and Asia regions. At the same time, foreign and domestic institutional investors and analysts frequently visit our investor relations department or contact it by phone. Going forward, HTC will continue to advance its work in every aspect of investor relations in order to fulfill the responsibilities of a listed company toward its investors and shareholders.
(3) Supplier relations and rights of interested parties	HTC has adopted Procedures for Transactions with Specific Companies, Group Enterprises, and Related Parties and Supplier Integrity Commitment Letter to guarantee the rights and interests of HTC and interested parties. Purchasing contracts are also signed with suppliers to govern to transactions and cooperative efforts to protect the lawful rights and interests of all parties.
(4) Professional development of Directors, Supervisors, and managerial officers:	HTC Directors and Supervisors voluntarily attend seminars held by professional training institutes as required by law and regulation. In addition, to further strengthen implementation of corporate governance, regular courses are also planned on finance, business, commerce, law, and accounting subjects that are related to corporate governance, as well as courses on internal control and responsibility in connection with preparation of financial reports. Details of professional development courses taken by Directors, Supervisors, and managerial officers for 2013 can be found in Appendixes 1 and 2.

(Continued)

Item	Implementation Status
(5) Status of implementation of risk management policies and standards for measurement of risk:	HTC has adopted relevant risk management policies and standards for measurement of risk, and has established a dedicated unit to carry out risk management and risk measurement. With respect to implementation, HTC has reassessed its business risks after transitioning into a brand company. Risk factors are also reflected in financial statement items such as bad debts and warranty reserves which are reviewed by Supervisors and CPAs to ensure they are reasonable and appropriate. HTC's management of potential risk associated with promotion of its global brand is explained below: 1. Exchange rate risk: Foreign exchange movements are monitored and managed / hedged by dedicated personnel. Reserves for on-book liabilities are valued at the exchange rate on the balance sheet date, reducing as much as possible the effects of currency fluctuations on HTC's business and finances. 2. Receivables risk: Receivables risk is managed effectively by the finance department to ensure receivables quality and lower the risk of bad debt. 3. Management of idle inventory: In addition to enhancing supplier management and demand forecast, idle inventory is attended to early and reserves for loss taken in an appropriate manner. 4. Global tax risk:To comply with global tax compliance, our company engaged with international tax advisory for periodical review. 5. Product design quality: To ensure quality of design, HTC has established a department for design quality, which is exclusively responsible for control and management of quality in hardware and software, product safety, and conformance with environmental regulations around the world. The department provides a complete range of product testing and certification.
(6) Status of customer-protection policy implementation:	HTC strictly abides by the contracts it signs with customers to protect consumer rights and interests. Regular deliberation on and assessment of the Product Warranty Reserve for after-sales services ensures that allocations made to such reserves are reasonably sufficient and warranty responsibilities of the Company are adequately expressed.
(7) Liability insurance provided by HTC to Directors and Supervisors:	Article 16 of the amended Articles of Incorporation provides that the company may acquire liability insurance for all Directors and Supervisors throughout their term, within the scope of the indemnity liability they bear under the law in connection with their business responsibilities. Currently, HTC has purchased Liability Insurance for Directors, Supervisors, and key personnel (please see Appendix 3 for details),thereby transferring the risk arising from negligence or erroneous or improper conduct by Directors, Supervisors, or key personnel and enhancing the soundness of company management.

8. If the Company has a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows:
As of 2013, HTC has not yet issued any corporate governance self-assessment report or engaged any other professional institute to perform a corporate governance assessment. It has become a member of the ROC's Corporate Governance Association (CGA). Regular participation of its Directors, Supervisors, and management-level personnel in the CGA's Directors and Supervisors Association provides opportunities for exchanges with government, business, and academia on topics such as enterprise orientation, strategy development, operations and management, and financial,legal, and corporate governance issues, thereby strengthening HTC's enterprise management and corporate governance.

(Concluded)

Appendix 1: Continuous Education/Training of Directors and Supervisors

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Chairman	Cher Wang	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
		2013.08.21	2013.08.21	PwC	Boardroom Training	1	
Director	Wen-Chi Chen	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
		2013.08.21	2013.08.21	PwC	Boardroom Training	1	
Director	HT Cho	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
Independent Director	Chen-Kuo Lin	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
Supervisor	Shao-Lun Lee	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
Supervisor	Huang-Chieh Chu	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	

Appendix 2: Continuous Education/Training of Management Team

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Chief Executive Officer & President	Peter Chou	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
President of Engineering and Operations	Fred Liu	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
President of Global Sales & Chief Financial Officer	Chialin Chang	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
Chief Engineering Officer	David Chen	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
Chief Marketing Officer	Ben Ho	2013.11.05	2013.11.05	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	3	
Vice President, Talent Management	Crystal Liu	2013.10.14	2013.10.14	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	2	
Vice President, Procurement & Supply Engineering	Simon Lin	2013.10.14	2013.10.14	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	2	
Vice President, Hardware Engineering	WH Liu	2013.10.14	2013.10.14	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	2	
Vice President, Wireless Software	Simon Hsieh	2013.10.28	2013.10.28	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	2	
Vice President, MFG Operation	CS Wang	2013.10.14	2013.10.14	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	2	
Associate Vice President, Finance & Accounting	Edward Wang	2013.10.14	2013.10.14	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	2	
Associate Vice President, Finance & Accounting	James Chen	2013.09.30	2013.10.01	Accouting Research and Development Foundation	Advanced Study for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12	
		2013.10.28	2013.10.28	The Company commissioned Taiwan Securities & Futures Institute (SFI)	The Prevention and The Avoidance of Insider Trading	2	

Appendix 3: Directors, Supervisors and Key Personnel Liability Insurance

No	Insured Object	Insurance Company	Insured Amount	Insurance Period	Notes
1	All Directors, Supervisors and juristic person directors' representatives at investee companies and key personnel appointed by HTC	Fubon Insurance Co., Ltd.	US$: 35,000,000	From：2012.03.15 To：2013.03.15	
2	All Directors, Supervisors and juristic person directors' representatives at investee companies and key personnel appointed by HTC	Fubon Insurance Co., Ltd.	US$: 35,000,000	From：2013.03.15 To：2014.03.15	

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

(1) Compensation Committee members' information

2014.05.15

Conditions		Meet one of the following professional qualification requirements, together with at least five years work experience			Conforms to criteria for independence (Note)									
Title	Name	An instructor (or higher) in a department of commerce, law, finance, accounting, or other academic departments related to the business of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of thecompany	Have work experience in commerce, law, finance, accounting, or other areas relevant to the business of the company	1	2	3	4	5	6	7	8	Number of other public companies concurrently serving as an Compensation Committee member	Notes
Independent Director	Chen-Kuo Lin	V		V	V	V	V	V	V	V	V	V	1	
Other	Ti-Hsiang Wei			V	V	V	V	V	V	V	V	V	0	

Note : Compensation Committee members, during the two years before being elected or during the term of office, meet any of the following criteria:
(1) Not an employee of the Company or any of its affiliates.
(2) Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent Company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, children of minor age, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.
(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings.
(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified Company or institution that has a financial or business relationship with the Company.
(7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, Company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
(8) Not been a person of any conditions defined in Article 30 of the Company Law.

(2) The state of operations of the Compensation Committee

1. Numbers of the Compensation Committee members: 3 persons.
2. Terms of Office of the first Compensation Committee: from 22 Decemberr 2011 to 20 June 2013. The Compensation Committee conducted One (A) meeting in 2013.

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate in Person (%)(B / A)(Note)	Notes
Convener	Chen-Kuo Lin	1	0	100%	
Member	HT Cho	1	0	100%	
Member	Harvey Chang	1	0	100%	

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

Note: Attendance rate in person(%) is calculated by the meeting times and the actual attendance during the incumbency of the Compensation Committee.

Terms of Office of the second Compensation Committee: from 27 September 2013 to 20 June 2016. The Compensation Committee conducted One (A) meeting in 2013.

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate in Person (%)(B / A)(Note)	Notes
Convener	Chen-Kuo Lin	1	0	100%	
Member	HT Cho	1	0	100%	Resigned on 2014.03.19 per the regulation and the Board of Directors will appoint an independent professional advisor for this position by June 18, 2014.
Member	Ti-Hsiang Wei	1	0	100%	

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

Note: Attendance rate in person(%) is calculated by the meeting times and the actual attendance during the incumbency of the Compensation Committee.

5. HTC's exercise of corporate social responsibility:

Guidelines, measures, and conditions under which the company takes action with respect to environmental protection, community involvement, social contributions, social services, social welfare, consumer rights, human rights, and health and safety.

Item		Implementation Status	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies
1. Implementation of Corporate Governance	(1) The company's adoption of corporate social responsibility policies and systems, and its examination of the effectiveness of their implementation.	HTC's commitment to the development of corporate social responsibility is outlined on our global website (www.csr.htc.com). HTC has set out an employee code of conduct and supplier code of conduct, and policies relating to environmental safety and health, carbon reduction, energy management, etc. It is the duty of each department to implement and review the effectiveness of each policy.	None
	(2) The operational status of the unit established by the company with exclusive or concurrent responsibility for CSR matters.	The CSR department is responsible for the planning and implementation of HTC's CSR activities, and attends Electronic Industry Citizenship Coalition (EICC) meetings on behalf of HTC. Promotion and enhancement of awareness internally and externally: 1. Report to executive management on EICC and CSR implementation status. 2. Audit suppliers to determine adherence to EICC guidelines. 3. Suppliers must sign HTC's Supplier Code of Conduct. 4. Periodic disclosure of HTC's corporate social responsibility operational status.	None
	(3) Regularly hold ethics training and awareness events for directors and employees, combined with the employee performance appraisal system. Establish a clear and effective system of reward and discipline	HTC holds training for new employees on their first day of work, introducing corporate policy, the employee code of conduct, environmental safety and health policy as well as our corporate social responsibility philosophy. The company has an open and transparent performance appraisal system. At the end of each year, as part of the employee's performance appraisal process, the employee must finalize next year's learning plan and also communicate next year's work goals as well as learning plan with their supervisor. Not only does this enhance the employee's professional skills, it also assists them to develop additional skills and knowledge.	None
2. Develop a sustainable environment	(1) The status of the company's efforts to improve its efficiency in the utilization of all resources and the use of recycled materials with low environmental impact.	In 2006 HTC began studying how to integrate the Life Cycle Thinking (LCT) concept into their development processes so as to provide R&D engineers with quantitative green information. In 2010 the company participated in a project led by the Ministry of Economic Affair's Industrial Development Bureau. This sustainable industrial development counseling project focused on the life-cycle inventory (LCI) of the supply chain and established a database of key components in products and their impact on the environment. R&D engineers can reference this information in the development of green products. In terms of packaging, HTC currently uses highly recycled packaging materials that are corrugated and renewable. Corrugated packaging is composed of 85-90% recycled pulp with the rest discarded after use. This type of packaging material is 100% recyclable and biodegradable. Renewable packaging is made of 65% sugar cane bagasse and 35% bamboo pulp. In terms of power usage, all of the power supplies that come with HTC's products conform to international standards such as the US Energy Star, California Energy Commission, and the EU Code of Conduct on Energy Efficiency of External Power Supplies. The company provides power supplies that have greater energy efficiency than required by the above measurement standards, thereby achieving both energy savings and carbon reduction. In 2013, we chose HTC One as its representative product. In a concerted effort with suppliers, HTC One was able to pass third party product verification, and became the first Smartphone to meet comprehensive international standards for carbon footprint and life cycle assessment, including ISO/TS 14067:2013, PAS 2050:2011,ISO 14040:2006,and ISO 14044:2006. In addition, the inks used to print HTC packaging are of low volatility or use soy ink that complies with the standards set by the American Soybean Association. HTC aims to minimize the impact of its packaging materials on the environment.	None

(Continued)

Item		Implementation Status	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies
2. Develop a sustainable environment	(2) The status of the company's establishment of environmental management systems appropriate to the nature of its industry.	HTC has passed ISO14001:2004 certification to set criteria for environmental management systems and ISO14064:2006 certification to report greenhouse gas emissions and removal. In addition, HTC received ISO 50001 certification in 2011, using its energy management system and energy saving measures to increase energy efficiency and reduce greenhouse gas emissions.	None
	(3) The status of the company's establishment of dedicated environmental management units or personnel to maintain the environment.	The company has set up a dedicated environmental unit to coordinate all environmental-related activities.	None
	(4) The status of the company's attention to the effects of climate change on its operations and its establishment of a company strategy for energy conservation and carbon and greenhouse gas reduction.	Beginning in 2008, HTC has publically reported and verified its Greenhouse Gas Emissions (GHG) inventories and set GHG emissions reduction goals for all production facilities in Taiwan. In 2010, with the support of third-party agencies, HTC began publically reporting its GHG inventories for its Mainland China factories. Through the implementation of ISO50001, energy management systems, and effective energy reduction measures, the company has been able to increase energy efficiency while reducing greenhouse gas emissions.	None
3. Protecting the public interest	(1) The status of the company's observance of the relevant labor laws and regulations, protection of its employees' legal rights and interests, and establishment of appropriate management methods and procedures.	HTC periodically holds labor coordination meetings, with a labor representative selected by employees in attendance. These meetings focus on the discussion of labor rights. HTC's employee code of conduct defines employees' legal rights, interests and establishes appropriate compliance measures.	None
	(2) The status of the company's provision of a safe and healthy work environment for its employees and its provision of health and safety education to its employees on a regular basis.	To ensure the health and safety of our employees, HTC annually commissions a qualified laboratory to conduct on-site environmental tests. The results of all tests surpass standards set by related regulations. To strengthen safety and health awareness, HTC provides new employees with three hours of safety and health training. Employees with special work requirements, such as the handling of organic hazardous solvents, will receive further training pertinent to the nature of their job. For new employees entering the factory, they will receive fire prevention training on a monthly basis. HTC, pursuant to relevant laws and regulatory requirements, asks that employees conduct career planning and training, as well as develop and execute on-the-job training plans.	None
	(3) The status of the company's formulation and public release of its policies on consumer rights and interests, and its provision of transparent and effective procedures for consumer complaints regarding its products and services.	HTC safeguards consumer rights and interests with various services and information. It provides channels of communication that allow consumers to contact HTC, including: • the limited warranty sheet included in the HTC phone package • Customer service contact numbers in all countries • Customer service center contact info card in Taiwan • Include the telephone numbers and methods of connecting to its dedicated customer service lines on its official Website • Live customer chat service • Customer service e-mail • Home pickup and delivery service • Customer service center address	None
	(4) The status of the company's cooperation with suppliers to jointly enhance corporate social responsibility items	In December 2010, HTC joined the Electronic Industry Citizenship Coalition (EICC). Based on the EICC's Electronic Industry Code of Conduct, HTC defined its own version called the "HTC Electronic Supplier Code of Conduct". Based on HTC's Supplier Code of Conduct and the governing laws applicable to the Supplier's manufacturing plant, the company is able to conduct supplier audits within the scope of corporate social responsibility, including working conditions, environment, safety & health, integrity & ethics and related management systems.	None

(Continued)

Item		Implementation Status	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
3. Protecting the public interest	(4) The status of the company's cooperation with suppliers to jointly enhance corporate social responsibility items	In 2012, we included the issue of conflict minerals into the audit scope of supplier social responsibility. HTC does not support the purchase of conflict materials. To ensure that Gold (Au), Titanium (Ta), Tin (Sn), Tungsten (W) and other metals do not come from the Democratic Republic of Congo and other neighboring countries in the conflict minerals zone, HTC and its suppliers make the utmost effort to avoid using conflict minerals in the hopes of improving the negative impact this issue has brought forth. HTC supports the US Dodd-Frank Wall Street Reform and Consumer Protection Act H.R. 4173. HTC has also joined the EICC and Global e-Sustainability Initiative (GeSI)'s mining workgroup activities and aims to join the EICC-GeSI's mining source audit plan. We require that suppliers comply with HTC's conflict-free minerals procurement policy, which means that they must lower, reduce, and eliminate the use of conflict minerals. HTC requires suppliers to complete the "Metals Mining Source Survey" and sign a "Conflict-Free Minerals Warranty," which are both included in the Supplier Code of Conduct. Based on the Friends of the Earth (FoE) investigative report, the mining of tin on Banka Island in Indonesia is violating human rights and damaging the environment with catastrophic effects. To support this global environmental protection effort, we have checked our first tier suppliers and currently there is no direct use of this tin ore, but there is a portion that has indirectly come from Banka Island. We will be responsible for our supply chain management and ask that our suppliers to avoid using tin ore from this source. As Indonesia is still the main source for tin ore, it is currently not possible to completely avoid its use. In the meantime we have asked suppliers to sign a warranty declaration, which states that if they use tin from Banka Island it must not come as a result of labor rights violations, use of child labor and environmentally harmful activities. Suppliers must also take the responsibility to help alleviate the harmful effects that tin ore mining has had on the environment and people and to ensure the sustainable development of the environment. HTC will continue to promote responsible mineral sourcing, while tracking and monitoring our suppliers so that they may communicate and implement our conflict minerals procurement policies to upstream suppliers.	None
	(5) The status of the company's participation in commercial activities, property endowments, volunteering of service or other free professional services, and participation in charitable events or events relating to community development.	HTC invites the Hsinchu Blood Donation Center to organize four blood drives every year. The annual blood donation target is over 1000 bags. The HTC Fund has established three Character and English Institutes in Hualian, Yunlin, and Chiayi. In 2013, HTC plans to add another school in Taitung. Additionally, in 2012 HTC extended outside of the education realm, using the influence of Character Education to move into other areas, which is evident from the development of Character Towns and Character Hospitals.	None
4. Enhancing information disclosure	(1) Methods for disclosing relevant and reliable information regarding corporate social responsibility.	HTC's commitment to corporate social responsibility is available on our global website (www.csr.htc.com).	None
	(2) Company produces corporate social responsibility report to communicate its related activities.	In 2013, HTC prepared its first corporate social responsibility report and received the 2013 Taiwan Corporate Sustainability Award of Excellence in Manufacturing.	None
5. For companies who follow the Listed Company Corporate Social Responsibility Code of Conduct as a guideline to setting its own Corporate Social Responsibility Code of Conduct, please describe any differences between operations and guidelines: HTC has yet to define a corporate social responsibility code of conduct.			
6. Any other important information that helps to understand corporate social responsibility practices (such as guidelines, measures, and conditions under which the company takes action with respect to environmental protection, community involvement, social contributions, social services, social welfare, consumer rights, human rights, and health and safety.): None			
7. If the company's products or corporate social responsibility reports have been confirmed by relevant institutions, please indicate: Report 1 GRI31 written guidelines have passed AA100 verification by an impartial third-party SGS and received the confirmation statement.			

6. Status of HTC's implementation of ethical corporate management best practices and adoption of related measures:

Status of implementation of ethical corporate management best practices:

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

(Continued)

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

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

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

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

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

(1) Statement on Internal Control

HTC Corporation

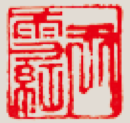
Internal Control System Statement

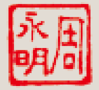
Date: 02/28/2014

The Company states the following with regard to its internal control system for 2013, based on the findings of a self-evaluation:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguarding of asset security), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" promulgated by the Financial Supervisory Commission, Executive Yuan (hereafter, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has evaluated the design and operating effectiveness of its internal control system according to the forementioned criteria.
5. Based on the findings of the evaluation mentioned as of 12/31/2013, the Company believes that during the stated time period its internal control system (including its supervision of subsidiaries), encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This statement has been passed by the Board of Directors Meeting of the Company held on 02/28/2014, in which all of the 6 attending directors affirmed the content of this Statement.

HTC Corporation


Chairman :


President :


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

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

11. Material resolutions of the 2013 Shareholders Meeting and Board of Directors Meetings during the most recent fiscal year and the current fiscal year up to the date of printing of this annual report.

Item	Date	Material resolutions	Note
Year 2013			
Board of directors meeting	2013.02.19	1. Adopted resolution for the date, time and venue for the Company's 2013 Annual General Shareholders' Meeting, and the submission period and address for shareholders' proposals.	
Board of directors meeting	2013.05.01	1. Adopted resolution for fiscal 2012 earnings distribution proposal.	
Shareholders meeting	2013.06.21	1. Adoption of the Fiscal 2012 Business Report and Financial Statement. 2. Adoption of the Fiscal 2012 Earnings Distribution Proposal. 3. Adopted resolution for the proposal to amend the Articles of Incorporation. 4. Adopted resolution for the proposal to amend the Company's Operational Procedures for Lending Funds to Others. 5. Adopted resolution for proposal to amend the Company's Rules for Endorsements and Guarantees. 6. Company's re-election of Directors and Supervisors according to the Article 13 of the amended Articles of Incorporation. 7. Adopted resolution to release the newly-elected Directors from non-competition restrictions.	Please refer to the note for an execution summary of the material resolutions of the shareholders meeting
Board of directors meeting	2013.07.05	1. Adopted resolution to adopt a date of record for the distribution of cash dividends, the closing period for the share transfer and the delivery date for the cash dividends.	
Board of directors meeting	2013.08.02	1. Adopted resolution for the repurchase of the Company's shares and cancellation of such shares.	
Board of directors meeting	2013.08.22	1. Adopted resolution for the proposal to issue employee stock option.	
Board of directors meeting	2013.09.27	1. Adopted resolution on the appointment of the Company's Compensation Committee members. 2. Adopted resolution for registering a change of share status to write-off 1,912,632 shares of the Company's treasury stocks and setting the record date for the reduction of paid-up capital. 3. Adopted resolution on the disposal of 24.84% of shares in Beats Electronics, LLC by the Company's subsidiary, HTC Europe Co., Ltd., to Beats.	
Board of directors meeting	2013.11.05	1. Adopted resolution for registering a change of share status to write-off 7,789,000 shares of the Company's treasury stocks and setting the record date for the reduction of paid-up capital. 2. Adopted resolution for Company's 2013 fourth quarter summary financial forecast.	
Year 2014			
Board of directors meeting	2014.02.10	1. Adopted resolution for registering a change of share status to write-off 1,998,413 shares of the Company's treasury stocks and setting the record date for the reduction of paid-up capital. 2. Adopted resolution for Company's 2014 first quarter summary financial forecast.	
Board of directors meeting	2014.02.28	1. Adopted resolution for the date, time and venue for the Company's 2014 Annual General Shareholders' Meeting, and the submission period and address for shareholders' proposals.	
Board of directors meeting	2014.05.06	1. Adopted resolution for Company's 2014 second quarter summary financial forecast. 2. Adopted resolution for fiscal 2013 Deficit Compensation Proposal. 3. Adopted resolution on the issuance of 5,000,000 New Restricted Employee Shares. 4. Adopted resolution to amend the agenda for convening the 2014 Annual General Shareholders' Meeting of the Company. 5. Adopted resolution on the disposal of Primavera Capital (Cayman) Fund I L.P. by Company's subsidiary, HTC Investment One (BVI). 6. Adopted resolution on the capital injection from Company's subsidiary HTC America Holding Inc. to its subsidiary HTC America Inc. 7. Adopted resolution on the capital injection from Company's subsidiary High Tech Computer Asia Pacific Pte. Ltd. to its subsidiary HTC Communication Co. Ltd.	

Note: Acting pursuant to resolutions adopted at the 2013 regular shareholders meeting regarding the earnings distribution proposal, HTC completed the distributions of cash dividends in 2013. For the employee cash bonuses distribution, HTC prepared the employee cash bonuses distribution list per the employee incentive and retention plan and executed accordingly.

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

13. No resignations or dismissals during the most recent fiscal year to Directors, Supervisors, General Managers, and Assistant General Managers.

3. Information on CPA Professional Fees:

1. Scale of information on CPA professional fees

Accounting Firm	Name of CPA	Audit Period	Note
Deloitte & Touche	Ming-Hsien Yang, Wen-Ya Hsu	Years Ended December 31, 2013	

Scale of Fee	Item		
	Audit Fee	Non-Audit Fee	Total Fee
Under NT$2,000,000		V	
NT$ 2,000,000 ~ NT$ 3,999,999			
NT$ 4,000,000 ~ NT$ 5,999,999			
NT$ 6,000,000 ~ NT$ 7,999,999			
NT$ 8,000,000 ~ NT$ 9,999,999			
Over NT$ 10,000,000	V		V

2. Information on CPA professional fees

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

Unit:NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					CPA's Audit Period	Note
			System Design	Company Registration	Human Resource	Others (note)	Subtotal		
Deloitte & Touche	Ming-Hsien Yang Wen-Ya Hsu	11,770	-	108	-	1,130	1,238	Years Ended December 31, 2013	Transfer pricing report and international tax consultation

(2) The company does not change its accounting firm.

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

4. The Company Replaces Its Certified Public Accountant Within the Last Two Fiscal Years:

1. Former Certified Public Accountant:

Replacement Date	2013.02.19 (Date of Board Resolution)		
Replacement Reason	Due to internal adjustment of Deloitte & Touche, CPA Ming-Hsien Yang and CPA Tze-Chun Wang are replaced by CAP Ming-Hsien Yang and CPA Wen-Ya Hsu as from the first quarter of 2013.		
Specify whether the appointment is terminated or not accepted by the appointer or CPA (Not applicable)	Persons concerned / Situation	CPA	Appointer
	Voluntary termination of appointment		
	No further acceptance of (continuous)appointment		
Opinions and reasons for audit reports other than reports with unqualified opinions in the last two years	None		
Opinions and reasons for audit reports other than reports with unqualified opinions in the last two years	Yes		Accounting principles or practices
			Disclosure of financial reports
			Scope or steps of audit
			Other
	No	V	
	Remarks		
Other disclosures (To be disclosed in accordance with Article 10.5(1).(iv) of the Regulations Governing Information to be Published in Annual Reports of Public Companies)	None		

2. Successive Certified Public Accountant

Accounting Firm	Deloitte & Touche
Name of CPA	Ming-Hsien Yang, Wen-Ya Hsu
Appointed Date	2013.02.19 (Date of Board Resolution)
Consultation about accounting treatment or applicable accounting principles for specific transactions and the possible opinion on the financial reports and the results thereof before appointment	None
Written opinions on discrepancy of opinions between the successive CPA and the former CPA	None

3. The former CPA's written response to the matters referred to in Article 10.5(1) and 10.5(2).(iii) of the "Regulations Governing Information to be Published in Annual Reports of Public Companies" : None.

5. The Company's Chairperson, General Manager, or Any Managerial Officer in Charge of Finance or Accounting Matters Has Not in the Most Recent Year Hold a Position at the Accounting Firm of Its Certified Public Accountant or at an Affiliated Enterprise of Such Accounting Firm.

6. Transfer of Equity Interests and / or Pledge of or Change in Equity Interests by a Director, Supervisor, Managerial Officer, or Shareholder with a Stake of More Than 10 Percent During the Most Recent Fiscal Year and the Current Fiscal Year Up to the Date of Printing of This Annual Report.

1. Changes in shareholdings of Directors, Supervisors, Managers, and major shareholders

Unit : Shares

		2013		2014.01.01 – 2014.04.21	
Title	Name	Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Chairman	Cher Wang	0	0	0	0
Director	HT Cho	0	0	0	0
Director	Wen-Chi Chen	0	0	0	0
Director	David Bruce Yoffie	0	0	0	0
Independent Director	Chen-Kuo Lin	0	0	0	0
Independent Director	Josef Felder	0	0	96,000	0
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	0	0	0	0
Supervisor	Huang-Chieh Chu	0	0	0	0
Chief Executive Officer & President	Peter Chou	0	0	0	0
President of Engineering and Operations	Fred Liu	0	0	0	0
President of Global Sales & Chief Financial Officer	Chialin Chang	0	0	0	0
Chief Engineering Officer	David Chen	0	297,000	50,000	0
Chief Marketing Officer(Note l)	Ben Ho	0	0	0	0
General Counsel	Grace Lei	(97,798)	0	0	0
Vice President, Talent Management	Crystal Liu	(17,000)	0	0	0
President of North America	Jason Mackenzie	(48,826)	0	0	0
President of EMEA(Note 2)	Philp Blair	0	0	0	0
President of China & North Asia	Jack Tong	(41,000)	0	0	0
President of South Asia(Note 3)	Jackson Yang	0	0	0	0
Vice President, Emerging Devices	Michael Woodward	0	0	0	0
Vice President, Procurement & Supply Engineering	Simon Lin	(55,000)	0	0	0
Vice President, Hardware Engineering	WH Liu	(27,000)	0	0	0
Vice President, Wireless Software	Simon Hsieh	(8,000)	0	0	0
Vice President, MASD	Steve Wang	(12,500)	0	0	0
Vice President, MFG Operation	CS Wang	(38,000)	0	(5,000)	0

(Continued)

Title	Name	2013 Change in quantity of shareholding	2013 Change in quantity of pledged shares	2014.01.01 ~ 2014.04.21 Change in quantity of shareholding	2014.01.01 ~ 2014.04.21 Change in quantity of pledged shares
Vice President, Product Quality Assurance	Georges Boulloy	0	0	0	0
Associate Vice President, Finance & Accounting	Edward Wang	(8,140)	0	0	0
Associate Vice President, Finance & Accounting	James Chen	(4,000)	0	0	0
Former Director (Note 4)	Rick Tsai	0	0	0	0
Former Director (Note 5)	Tan Ho-Chen	0	0	--	--
Former Senior Vice President and Head of Design (Note 6)	Scott Croyle	0	0	0	0
Former Vice President(Note 7)	Lorain Huang	0	0	--	--
Former Head of HTC Communication, China (Note 8)	Ray Yam	0	0	--	--
Former Associate Vice President, Studio (Note 9)	Thomas Chien	(31,000)	0	--	--
Former Chief Operating Officer (Note 10)	Matthew Costello	(15,000)	0	--	--
Former Chief Product Officer (Note 11)	Kouji A. Kodera	0	0	--	--
Former President of EMEA Region (Note 12)	Florian Seiche	0	0	--	--
Former President of South Asia (Note 13)	Lennard Hoornik	(18,000)	0	--	--
Former Director (Note 14)	Joey Cheng	0	0	--	--
Former Vice President (Note l5)	Gregory Fisher	(7,000)	0	--	--

Note 1 : Ben Ho was appointed as insider manager on February 19, 2013.
Note 2 : Philp Blair was appointed as insider manager on May 1, 2013.
Note 3 : Jack Yang was appointed as insider manager on July 5, 2013.
Note 4 : Rick Tsai was elected as Director on June 21, 2013 and he resigned on January 24, 2014.
Note 5 : Tan Ho-Chen resigned on June 21, 2013.
Note 6 : Scott Croyle resigned on May 15, 2014.
Note 7 : Lorain Huang was appointed as insider manager on July 5, 2013 and she resigned on November 5, 2013.
Note 8 : Ray Yam resigned on September 27, 2013.
Note 9: Thomas Chien resigned on August 30, 2013.
Note 10 : Matthew Colstello resigned on July 5, 2013.
Note 11 : Kouji A. Kodera resigned on May 11, 2013.
Note 12 : Lennard Hoornik resigned on May 1, 2013.
Note 13 : Florian Seiche resigned on May 1, 2013.
Note 14 : Joey Cheng resigned on February 19, 2013.
Note 15 : Gregory Fisher resigned on January 19, 2013.

2. Stock transfer with related party: None

3. Stock pledged with related party: None

7. Related Parties, as Defined in the Statement of Financial Accounting Standards No. 6, Among the Company's 10 Largest Shareholders.

2014.04.21

Name (Note 1)	Shareholding Shares	Shareholding %	Shareholding under spouse and children of minor age Shares	%	Shareholding under the title of third party Shares	%	Top 10 shareholders who are related parties to each other. (Note 2) Name	Relationship	Note
Way-Chih Investment Co., LTD. (Representative: Su-Lan Chiang)	43,819,290	5.21%	0	0.00%	0	0.00%	Way-Lien Technology Inc. Hon-Mou Investment Co., Ltd. Kun-Chang Investment Co, Ltd.	Same chairman Same chairman Same chairman	
Way-Lien Technology Inc. (Representative: Su-Lan Chiang)	37,653,231	4.48%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Hon-Mou Investment Co., Ltd. Kun-Chang Investment Co, Ltd	Same chairman Same chairman Same chairman	
Cher Wang	32,272,427	3.84%	22,391,389	2.66%	0	0.00%	Wen-Chi Chen	Spouse	
Hon-Mou Investment Co., Ltd. (Representative: Su-Lan Chiang)	24,385,081	2.90%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Way-Lien Technology Inc. Kun-Chang Investment Co, Ltd	Same chairman Same chairman Same chairman	
Wen-Chi Chen	22,391,389	2.66%	32,272,427	3.84%	0	0.00%	Cher Wang	Spouse	
Standard Chartered Bank in custody for VANGUARD EMERGING MARKETS STOCK INDEX FUND	13,488,925	1.61%	0	0.00%	0	0.00%	None	None	
Invesco Funds-Invesco Greater China Equity Fund	11,611,000	1.38%	0	0.00%	0	0.00%	None	None	
Kun-Chang Investment Co, Ltd. (Representative: Su-Lan Chiang)	9,982,824	1.19%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Way-Lien Technology Inc. Hon-Mou Investment Co., Ltd.	Same chairman Same chairman Same chairman	
Credit Suisse Securities (Europe) Limited	9,072,944	1.08%	0	0.00%	0	0.00%	None	None	
JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority	8,762,833	1.04%	0	0.00%	0	0.00%	None	None	

Note 1 : The top 10 shareholders shall all be listed; for institutional shareholders, the name of the entity and the name of its representative shall be listed separately.
Note 2 : Mutual relationships of shareholders, including judicial and natural persons, shall be disclosed.

8. Total Number of Shares and Total Equity Stake Held in the Same Enterprise by the Company, Its Directors and Supervisors, Managers Directly or Indirectly

2014.03.31 Unit：thousands Shares；NTD thousands；%

Long-term investments (Note)	Investments by HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
H.T.C. (B.V.I.) Corp.	1,225,202 thousands Shares	100%	0	0%	1,225,202 thousands Shares	100%
Communication Global Certification Inc.	29,057 thousands Shares	100%	0	0%	29,057 thousands Shares	100%
High Tech Computer Asia Pacific Pte. Ltd.	714,534 thousands Shares	100%	0	0%	714,534 thousands Shares	100%
HTC Investment Corporation	30,000 thousands Shares	100%	0	0%	30,000 thousands Shares	100%
PT. High Tech Computer Indonesia	2 thousands Shares	1%	186 thousands Shares	99%	188 thousands Shares	100%
HTC I Investment Corporation	29,500 thousands Shares	100%	0	0%	29,500 thousands Shares	100%
HTC Holding Cooperatief U.A.	NTD13 thousands	0.01%	NTD13,994,239 thousands	99.99%	NTD13,994,252 thousands	100%
Huada Digital Corporation	25,000 thousands Shares	50%	0	0%	25,000 thousands Shares	50%
HTC Investment One (BVI) Corporation	383,692 thousands Shares	100%	0	0%	383,692 thousands Shares	100%
High Tech Computer (H.K.) Limited	0	0%	2,000 thousands Shares	100%	2,000 thousands Shares	100%
HTC (Australia and New Zealand) Pty. Ltd.	0	0%	400 thousands Shares	100%	400 thousands Shares	100%
HTC Philippines Corporation	0	0%	859 thousands Shares	100%	859 thousands Shares	100%
HTC (Thailand) Limited	0	0%	10,000 thousands Shares	100%	10,000 thousands Shares	100%
HTC India Private Limited	0	0%	500 thousands Shares	100%	500 thousands Shares	100%
HTC Malaysia Sdn. Bhd.	0	0%	25 thousands Shares	100%	25 thousands Shares	100%
HTC Innovation Limited	0	0%	5 thousands Shares	100%	5 thousands Shares	100%
HTC HK, Limited	0	0%	1,094,376 thousands Shares	100%	1,094,376 thousands Shares	100%
Yoda Co., Limited	0	0%	NTD20,000 thousands	100%	NTD20,000 thousands	100%
S3 Graphics Co., Ltd.	0	0%	386,339 thousands Shares	100%	386,339 thousands Shares	100%
HTC Netherlands B.V.	0	0%	348,943 thousands Shares	100%	348,943 thousands Shares	100%
HTC South Eastern Europe LLC.	0	0%	0.15 thousands Shares	100%	0.15 thousands Shares	100%
HTC EUROPE CO., LTD.	0	0%	234,287 thousands Shares	100%	234,287 thousands Shares	100%
HTC Brasil	0	0%	1,987 thousands Shares	100%	1,987 thousands Shares	100%
HTC Belgium BVBA/SPRL	0	0%	18.55 thousands Shares	100%	18.55 thousands Shares	100%
HTC NIPPON Corporation	0	0%	1 thousands Shares	100%	1 thousands Shares	100%

Long-term investments (Note)	Investments by HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
HTC France Corporation	0	0%	6,500 thousands Shares	100%	6,500 thousands Shares	100%
HTC Nordic ApS	0	0%	80 thousands Shares	100%	80 thousands Shares	100%
HTC Italia SRL	0	0%	NTD422 thousands	100%	NTD422 thousands	100%
HTC Germany GmbH	0	0%	25 thousands Shares	100%	25 thousands Shares	100%
HTC Iberia, S.L.U.	0	0%	3 thousands Shares	100%	3 thousands Shares	100%
HTC Poland sp. z o.o.	0	0%	4.7 thousands Shares	100%	4.7 thousands Shares	100%
HTC Communication Canada, Ltd.	0	0%	1,500 thousands Shares	100%	1,500 thousands Shares	100%
HTC Norway AS	0	0%	780 thousands Shares	100%	780 thousands Shares	100%
HTC Rus LLC	0	0%	NTD12,279 thousands	100%	NTD12,279 thousands	100%
HTC Communication Sweden AB	0	0%	1,000 thousands Shares	100%	1,000 thousands Shares	100%
HTC Luxembourg S a r. l.	0	0%	12.5 thousands Shares	100%	12.5 thousands Shares	100%
HTC Middle East FZ-LLC	0	0%	3.5 thousands Shares	100%	3.5 thousands Shares	100%
HTC America Holding, Inc.	0	0%	358,617 thousands Shares	100%	358,617 thousands Shares	100%
Abaxia	0	0%	806 thousands Shares	100%	806 thousands Shares	100%
HTC America, Inc.	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
One & Company Design, Inc.	0	0%	60 thousands Shares	100%	60 thousands Shares	100%
HTC America Innovation, Inc.	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
HTC America Content Services, Inc.	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
Dashwire, Inc.	0	0%	0.1 thousands Shares	100%	0.1 thousands Shares	100%
Inquisitive Minds, Inc.	0	0%	0.1 thousands Shares	100%	0.1 thousands Shares	100%
SYNCTV Corporation	0	0%	0.125 thousands Shares	20%	0.125 thousands Shares	20%
HTC BLR	0	0%	NTD660 thousands	100%	NTD660 thousands	100%
High Tech Computer (SuZhou)Co., Ltd.	0	0%	USD20,000 thousands	100%	USD20,000 thousands	100%
HTC Corporation (Shanghai WGQ)	0	0%	USD1,500 thousands	100%	USD1,500 thousands	100%
HTC Electronics (Shanghai) Co., Ltd.	0	0%	USD133,000 thousands	100%	USD133,000 thousands	100%
HTC Communication Co., Ltd	0	0%	USD27,500 thousands	100%	USD27,500 thousands	100%
HTC Communication Technologies (Shanghai Limited)	0	0%	USD4,000 thousands	100%	USD4,000 thousands	100%

Note：Investments accounted for using the equity method.

9. Corporate Social Responsibility

As an international brand, HTC has joined the Electronic Industry Citizenship Coalition (EICC) to fulfill our corporate social responsibilities and respect international human rights. CSR is practiced in all routine operations.

1. Employee health and care

HTC's most valuable asset is our employees so we strive to create a safe, comfortable and inspirational work environment. Every effort is made to meet and take into account the work requirements of employees. HTC knows that maintaining employees' professionalism and passion for contributing to the company's development are critical to the success and sustainable development of the enterprise as a whole. Balancing work and life as well as maintaining the physical and mental health of employees is therefore a longstanding goal of HTC.

We consider employee health to be crucial and do everything we can to provide all employees with a healthy and comfortable environment. We have also taken action in four areas: "health management", "health promotion", "occupational health" and "employee assistance". A high-level response organization has also been defined to address the risk of declared infectious diseases. We also ensure that resources are in place and effectively implemented to protect the health of every employee.

The pressures of the high-tech industry often cause employees to neglect their health. HTC not only offers a comprehensive health plan but has also arranged for our health clinic to collaborate with medical institutions. Employees identified as high-risk after their health exam are monitored and treated. Related health courses have also been launched to provide employees with correct health management information. Complementing living habits with health management helps cultivate the self-health management ability of employees. In 2013, a total of 2,843 people took part in the health promoting classes.

HTC has a professional-grade fitness center with fitness instructors to develop personalized fitness programs for employees such as aerobics and massage. Classes include weight loss, aches & pains and fitness; professional fitness classes include body shaping, aerobics, yoga and spinning classes. These classes help look after employee health. In 2013, a total of 2,462 people attended classes at the fitness center.

HTC has partnered with the Eden Social Welfare Foundation to set up a full-time blind masseur area in the gym and provide employees with stress relief services. In 2013, a total of 1,526 people made use of the massage services. In addition to employees' physical well-being, HTC attaches great importance to the mental well-being of employees. HTC has partnered with the Hsinchu Lifeline Association to provide each employee with six free psychological counseling service sessions each year. The service was used 141 times by HTC employees in 2013.

HTC employees are provided with a variety of different benefits. Subsidies and incentives are offered for participating in club activities to encourage employees to expand their life experience through exercising and engaging in recreational pursuits in their spare time. All kinds of activities, family days, sporting competitions as well as art and cultural competitions are hosted as well to give employees a normal social life outside of work.

To look after female employees and promote breast-feeding, HTC has set up 18 breast-feeding rooms and related facilities that offer mothers a comfortable nursing environment. These facilities were used 21,230 times in 2013.

For employee housing, dormitories are equipped with domestic and recreational facilities such as gyms, libraries and meeting halls to meet employees' requirements on space and comfort. We actively cooperate with the government's smoke-free workplace policy and care about employee health as well so there is no smoking within HTC throughout Taiwan.

2. Safety and health

HTC has introduced the OHSAS 18001:2007 occupational safety and health management system to practice continuous improvement.

To ensure a safe and healthy working environment for our employees, we invite an accredited lab to test the operating environment at our factories every year. The test results all exceed the relevant regulatory requirements.

To strengthen the safety and health awareness of employees, HTC employees undergo three hours of safety and health training on arrival or during orientation. Employees working in special roles also receive additional safety and health training for their position. Workers handling organic solvents for example receive hazard communication training. Firefighting training is carried out for new employees on a monthly basis as well.

A firefighting exercise is carried out every six months. An evacuation drill is carried out in accordance with the emergency response plan to improve employees' emergency response skills.

HTC places a strong emphasis on our core skills and we cooperate with different specialist contractors in developing the industry. For trusted long-term contractor partners, we not only learn from each other but also place a strong emphasis on work safety. Proper safety measures ensure that everyone can make the most of their strengths and contribute to mutual success. For this reason, HTC inspects the safety and health management conditions at our contractors every year. A comprehensive labor safety and health management plan is then developed to effectively prevent the occurrence of occupational disasters.

Initiatives taken by HTC on contractor partners' safety and health management include: Conforming to safety & health regulations, risk reduction through hazard identification, hazard regulation and management, safety and health education and contractor management. Full stakeholder involvement is used to mitigate the safety and health risks. New workers are warned about hazards before they enter the site. These include familiarizing workers with the operating environment, manufacturing process safety regulations and use of firefighting equipment.

3. Supplier partners

HTC knows that suppliers are essential to the continued growth of the enterprise and key partners in sustainable development. It is therefore natural for HTC to take a strong interest in our suppliers and invest in joint sharing, learning and growth.

HTC joined the Electronic Industry Citizenship Coalition (EICC) in December, 2012, and drew up the HTC Supplier Code of Ethics based on the EICC. Apart from requiring suppliers to sign the Supplier Code of Ethics, HTC also introduced CSR conformity audits for high-risk suppliers in accordance with the "HTC Supplier Code of Ethics" and relevant regulations governing supplier factories. The audits cover labor rights, labor conditions, environment, safety and health, integrity and ethics as well as the operation of related management systems. Apart from on-site audits, the HTC audit team plays the role of consultant as well. Suppliers are provided with the latest information on labor conditions, environment, safety and health in the hopes of elevating them to first-rate sustainable suppliers.

In 2012, the issue of conflict minerals was introduced to our supplier CSR audits. On the purchase of mineral ores, HTC supports the use of non-conflict minerals. HTC and our suppliers do everything possible to ensure that metals such as Gold (Au), Tantalum (Ta), Tin (Sn) and Tungsten (W) used by HTC do not come from mines located in the conflict region of the Congo Republic.

HTC supports the U.S. "Dodd-Frank Wall Street Reform and Consumer Protection Act" (H.R. 4173). We have also joined the joint mining task force setup by the EICC as well as the Global e-Sustainability Initiative (GeSI), and plan to participate in the EICC/GeSI conflict-free smelter program. At HTC, we require suppliers to conform with our conflict mineral purchasing policy and reduce the use of conflict minerals. HTC requires suppliers to sign "Mineral Source Survey" and "Declaration of Non-Use of Conflict Minerals" documents. These requirements are explicitly defined in our supplier CSR management process.

According to a report by the Friends of the Earth (FoE), tin mining on Indonesia's Bangka Island has damaged human rights and the environment. HTC conducted an investigation of our tier-1 supply chain in response to this international environmental movement and found that while there was no direct use, there were some indirect sources that came from the tin mine on Bangka Island.

We will therefore accept the responsibility for supply chain management and require our suppliers to avoid its use. Indonesia however is a major supplier of tin ore and complete non-use may not be avoidable. HTC has now taken action by requiring suppliers to sign declarations of non-use. Even if they do use ore from tin mines on Bangka Island, it must be from mines that do not exploit workers, use child labor or cause environmental damage. HTC is committed to taking responsibility for helping to fix the devastating impact on the environment and people caused by tin mining in order to ensure the sustainable development of the environment.

HTC will continue to push for responsible ore purchasing and look forward to our suppliers communicating our conflict free minerals purchasing policy to upstream suppliers.

4. Environmental protection

4.1 Green products

HTC's approach to the development of sustainable products goes beyond compliance with relevant regulations. We also take the product's design phase into account. From product proposal, planning, R&D and design, prototyping, engineering, pilot production, mass production through to scrapping, a complete lifecycle assessment is conducted to dissect the product process and help our R&D team comprehend the complex environmental factors involved.

We hope that the mobile devices we design and manufacture will conform to consumer expectations while also reducing their environmental impact. The Precautionary Principle is therefore used during product design and development to choose materials with lower environmental risks and confirm that they conform to prevailing international regulations on restricted substances. We actively strive to reduce the use of substances harmful to the environment. Designs that improve recyclability are also used to improve resource reuse and reduce negative environmental impact.

4.1.1 Sustainable design

HTC's current sustainable design concept for products mainly emphasize the three directions of (1) Improved energy efficiency, (2) Recyclability, and (3) Reduction of hazardous substances. These serve to improve the green competitiveness of products.

1) Improved energy efficiency

By applying the lifecycle concept to electronic communications products, our analysis of mobile phone carbon footprints has found that the raw materials and manufacturing phase consume the most energy. These phases are the main source of greenhouse gases (GHG) produced by the products. A strong emphasis is therefore placed on energy-saving design during product development. We require all power supplies used by HTC products to conform to international regulations governing power consumption. All power supplies used by HTC must conform to the following international standards:

- Energy Star (U.S.)
- California Energy Commission (U.S.)
- EU Code of Conduct
- Energy-related Products (ErP)

2) Recyclability

A complete assessment and simulation of a product's recyclable design is carried out during initial development. By dismantling the product and simulating the materials, it is possible to estimate the product's composition and relative recycling rate. Material labeling (ISO 11469, ISO 1043), component simplification and easy disassembly design strategies are also used to provide design strategies with reference value for R&D to study. The design of all current HTC products conforms to existing and future product recyclability requirements.

3) Reduction of hazardous substances

HTC put the first PDA mobile phone in the world that meets the EU RoHS Directive into mass production in 2005. Today, all parts, modules, materials and other products shipped to HTC must conform to the regulations governing the HTC hazardous substance list. The restrictions on substances are not only limited to the six items monitored by RoHS but also contain international environmental regulations and international customer controls.

4.1.2 Sustainable packaging

The packaging materials used by HTC mobile phone products are intended to guarantee the product's safety and appearance. We have taken into account the potential environmental impact from the user discarding the packaging once they have the product. Environmental friendliness and sustainability therefore form the basis of HTC's efforts in packaging reduction:

1. Reduce the use of materials
2. Use of biodegradable materials
3. Printing with environmental friendly ink (soy-based ink)
4. Transport-friendly packaging design

All of the packaging materials for HTC products are compliable with the EC directive on packaging (EU 94/62/EC) the US requirement on packaging (Model Toxics in Packaging Legislation of USA). All of the printing ink used in HTC product packaging has low volatility or soy ink certified by the American Soybean Association. These ensure that the environmental impact of packaging materials is minimized.

We try our best to use sustainable and reusable materials for packaging. If non-recycled paper must be used in packaging, HTC requires the supplier to provide paper certified by the Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC). On the use of packaging, HTC now uses only highly-recyclable packaging materials of these two types:

- Lightweight folded - paper packaging design:
  70-80% from recycled paper pulp, this type of packaging is 100% recyclable once it is thrown away.
- Lightweight uni-body design: Made up of 65% sugar cane and 35% bamboo pulp, it is 100% recyclable and 100% bio-degradable.

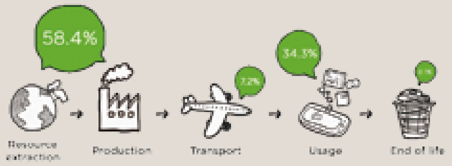
Apart from the above, all ink printed on HTC product packaging has low volatility and uses soy-based ink from the U.S. Soybean Association. Every effort is made to minimize the environmental impact of HTC product packaging.

We also set up a green supply chain management platform in 2006 that allows R&D engineers to look for green products that meet increased international regulatory and customer requirements. Green materials are introduced right from the design stage, greatly enhancing the reliability of the green product and trial schedule. The management platform was upgraded in 2008 with an even more simple and convenient user interface, along with better controls over hazardous substances.

4.1.3 Sustainable product

Carbon footprint verification

In 2013, the HTC One, our most representative product, went through the product carbon footprint verification process by an independent certification entity with the help of our suppliers. The HTC One became the first smartphone built to international specifications to complete the ISO/TS 14067:2013, PAS 2050:2011, ISO 14040:2006 and ISO 14044:2006 product carbon footprint and lifecycle assessments.



Proportion of carbon emissions throughout the HTC One product lifecycle

The product carbon footprint of HTC One was 40.5 kg CO2eq/functional unit.

4.2 Energy and climate change

HTC introduced the ISO 50001 energy management system in 2011 to learn about our internal energy consumption, the relevant regulatory requirements and energy baseline to provide a reference for our energy performance indicators as well as short-, mid- and long-term improvement goals. In 2009, HTC introduced GHG emission inventory and disclosure for factories and offices throughout Taiwan.

GHG emissions in 2012 totaled 45,658.612 tonnes CO2e. We will expand the scope of our GHG emissions inventory and external verification to subsidiaries we control in the future in order to provide comprehensive statistics and monitoring of GHG emissions. The implementation of the ISO 50001 energy management system and effective energy-saving measures will be used to increase overall energy efficiency, generating better energy revenues and ecological benefits.

Apart from the regular annual GHG emission inventory and verification, HTC also reports our planning and systems for carbon risk and carbon management on an annual basis in accordance with the requirements of the Carbon Disclosure Project (CDP).

4.3 Water resource management

Climate change due to global warming has become increasingly evident making the storage and distribution of water resources an important issue. At HTC, even though our production processes are not water intensive we still strive to reduce water consumption during routine consumption. We also encourage our factories to practice water resource management, recovery and reuse.

All of the water consumed during our operations comes from tap water. As all factory production lines are dry processes that produce no industrial wastewater, water consumption is all from general office and domestic use by employees.

The Taoyuan factory's water consumption in 2013 was 689,014 tonnes, with 220,430 tonnes of treated domestic sewage. 160,985 tonnes of water were reclaimed, accounting for 73.03% of the treated wastewater. The amount of reclaimed water has far exceeded the 60% target set for 2013. The amount of tap water used was greatly reduced by using reclaimed water instead for watering factory landscaping and in toilets.

4.4 Waste reduction

HTC's main production process is the assembly of smartphones. The production process generates only tiny amounts of emissions from soldering. No NOx or SOx emissions are generated. The production process produces no hazardous waste. We have strengthened our waste management and disposal model in accordance with the internal "Industrial Waste Disposal and Management Procedure". We also practice thorough recycling and education. Proper disposal of waste ensures the cleanliness of the work environment and reduces environmental impact.

On the management level, we adhered to government regulations in contracting licensed waste disposal companies for proper waste disposal. Contractor trucks and disposal sites are also checked at irregular intervals.

In the factory, we have also introduced a waste reduction strategy in addition to everyday waste management. Waste classification and reduction education helps reduce waste at the source. Prioritization is given to reuse as well to improve the recycling rate of resources. A total of 2,785,082 tonnes were recycled in 2013.

4.5 Green factory

A Gold rating for Leadership in Energy & Environmental Design (LEED) from the U.S. Green Building Council (USGBC) was set as the target during the planning stage of the Taoyuan factory and "HTC Taipei Headquarters". LEED requirements were implemented during project planning, design and construction. All engineering contractors were required to cooperate with and practice LEED requirements throughout the construction process. Energy modeling found that the energy-saving design helped reduce power consumption by 11.3% (Taoyuan) and 13.7% (Taipei) compared to the baseline scenario.

These two buildings will serve as the benchmark for new factories and offices built by HTC in the future in order to provide employees and visitors with an environmentally friendly, energy-saving, water-saving, comfortable and healthy space.

The Taipei headquarters building was presented with New Taipei City's highest environmental gold award in 2012 and also the US Green Building Council's (USGBC's) gold rating in 2013.

5. Social engagement: promotion of character education

5.1 HTC Foundation

The HTC Foundation defines "Character" as its core mission and strives to shape a character culture through character education. We start at the personal level to create a positive influence on the environment and society. In other words, character is used to improve our inner self, improve the social environment, and from there expand to include other people so that everyone can make a contribution to society and make the world a better place.

Our vision:

- To promote the building of good character
- So people can respect and support each other
- Making the world a better place

Our mission:

By providing educational programs for continuous learning, cultivate a culture based around the core values of honesty, integrity, love, respect, compassion, positive thinking and the value of natural resources.

Our accomplishments:

We embrace the humanitarian spirit of mutual aid and promote character education by helping schools carry out character education for children and youths, working with local governments on organizing community and urban character education, caring for disadvantaged families, and providing disadvantaged children with educational opportunities.

The HTC Foundation plans to build a fourth "Character & English Institute" in Taitung after Hualien, Yunlin and Chiayi. These are a series of courses designed to encourage and assist school leadership teams in Taiwan with the continued promotion and implementation of character and citizen education. Our goal is to help character education take root in every corner of Taiwan. In 2012, we expanded beyond schools into character towns and character hospitals in order to expand the tangible influence of character education into other fields.

The summer "Family Character Camp" hosted by the HTC Foundation and the Hualien Character & English Institute designs courses for parents and students as a family unit. Separate parent and student events are organized with parent activities lasting two days (not including accommodation) and student activities lasting five days (including accommodation). All the costs are met by the HTC Foundation. All Chinese and English-speaking courses at the Character & English Institute are based around character education. Students' character attitudes are cultivated through the teaching approach of "emphasis, requirement, praise and correction". A variety of classes and activities give shape to the core character and are combined with students' own life experiences to teach them the importance and benefits of character so they can practice it in their own everyday life.

We hope that students can all follow the principles of good character and positive thinking in making the right decisions and expressing themselves with the right words, actions and attitudes. In this way, they can become competitive citizens of good character.

5.2 Other social engagement and actions

5.2.1 Blood donation

HTC regularly invites the Hsinchu Blood Center to organize blood drives each year. Many "hot-blooded" employees have cultivated the habit of regular blood donation since 2006 so they always roll-up their sleeves when they hear that the blood donation bus is coming. The enthusiastic participation of HTC employees has led to the company being presented with a certificate of excellence for blood donation every year by the Hsinchu Blood Center. In 2013, the Taoyuan factory donated 300,250 c.c. of blood while the Hsintien plant donated 88,250 c.c..

5.2.2 Sponsorship of students from poor families

The HTC Foundation for many years has looked after disadvantaged groups by providing scholarships and grants to students from poor families. Apart from providing education plans for continuous learning to help students learn through practice as well as build up their self-confidence and self-worth, HTC also works with students to cultivate the core values of honesty, integrity, love, respect, compassion, positive thinking and respect for natural resources. No effort is spared when it comes to community engagement and social service.

5.2.3 HTC child support club

The HTC Child Support Group was founded in 2006 as an employee initiative. The club organizes donation drives with all proceeds going to the Taiwan Fund for Children and Families to help sponsor children in need. In 2012, donations from 321 employees and the Employee Welfare Committee raised a total of $3,234,530. The money was used to sponsor 254 children including eight children in Guatemala, Indonesia, the Philippines, Senegal, Sri Lanka, Qirghiz and Paraguay.

CHAPTER 5

CAPITAL AND SHARES

CAPITAL AND SHARES

1. Capital and Shares

1. Capitalization：

2014.04.21 Unit：Share；NT$

Month/ Year	Price	Authorized		Paid-in		Remark		
		Shares	Amount	Shares	Amount	Sources of capital	Capital increase by assets other than cash	Other
03/1998	10	19,500,000	195,000,000	19,500,000	195,000,000	Cash offering	None	-
10/1998	10	200,000,000	2,000,000,000	100,000,000	1,000,000,000	Cash offering	None	Note 1
08/2000	40	200,000,000	2,000,000,000	125,000,000	1,250,000,000	Cash offering	None	Note 2
04/2001	163.5	200,000,000	2,000,000,000	127,600,000	1,276,000,000	Cash offering	None	Note 3
06/2002	10	200,000,000	2,000,000,000	162,720,000	1,627,200,000	Capitalization of profits	None	Note 4
09/2003	10	270,000,000	2,700,000,000	202,764,000	2,027,640,000	Capitalization of profits	None	Note 5
11/2003	131.1	270,000,000	2,700,000,000	217,164,000	2,171,640,000	Cash offering	None	Note 6
03/2004	10	270,000,000	2,700,000,000	218,731,347	2,187,313,470	Merger	None	Note 7
08/2004	10	450,000,000	4,500,000,000	271,427,616	2,714,276,160	Capitalization of profits	None	Note 8
01/2005	127.95	450,000,000	4,500,000,000	276,311,395	2,763,113,950	Conversion of ECB	None	Note 9
04/2005	127.95	450,000,000	4,500,000,000	288,763,321	2,887,633,210	Conversion of ECB	None	Note 9
09/2005	10	450,000,000	4,500,000,000	357,015,985	3,570,159,850	Capitalization of profits	None	Note 10
08/2006	10	550,000,000	5,500,000,000	436,419,182	4,364,191,820	Capitalization of profits	None	Note 11
04/2007	10	550,000,000	5,500,000,000	432,795,182	4,327,951,820	Capital reduction: Cancellation of Treasury Shares	None	Note 12
09/2007	10	650,000,000	6,500,000,000	573,133,736	5,731,337,360	Capitalization of profits	None	Note 13
08/2008	10	1,000,000,000	10,000,000,000	755,393,856	7,553,938,560	Capitalization of profits	None	Note 14
02/2009	10	1,000,000,000	10,000,000,000	745,393,856	7,453,938,560	Capital reduction: Cancellation of Treasury Shares	None	Note 15
08/2009	10	1,000,000,000	10,000,000,000	796,020,844	7,960,208,440	Capitalization of profits	None	Note 16
11/2009	10	1,000,000,000	10,000,000,000	788,935,844	7,889,358,440	Capital reduction: Cancellation of Treasury Shares	None	Note 17
04/2010	10	1,000,000,000	10,000,000,000	773,935,844	7,739,358,440	Capital reduction: Cancellation of Treasury Shares	None	Note 18
08/2010	10	1,000,000,000	10,000,000,000	817,653,285	8,176,532,850	Capitalization of profits	None	Note 19
07/2011	10	1,000,000,000	10,000,000,000	862,052,170	8,620,521,700	Capitalization of profits	None	Note 20
12/2011	10	1,000,000,000	10,000,000,000	852,052,170	8,520,521,700	Capital reduction: Cancellation of Treasury Shares	None	Note 21
10/2013	10	1,000,000,000	10,000,000,000	850,139,538	8,501,395,380	Capital reduction: Cancellation of Treasury Shares	None	Note 22
11/2013	10	1,000,000,000	10,000,000,000	842,350,538	8,423,505,380	Capital reduction: Cancellation of Treasury Shares	None	Note 23
02/2014	10	1,000,000,000	10,000,000,000	840,352,125	8,403,521,250	Capital reduction: Cancellation of Treasury Shares	None	Note 24

(Continued)

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

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

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

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

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

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

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

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

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

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

Note 11 : Approval Document No. : The 06 July 2006 Letter No. Financial-Supervisory-Securities-I-0950128723 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 12 : Approval Document No. : The 25 January 2007 Letter No. Financial-Supervisory-Securities-III0960004848 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 13 : Approval Document No. : The 12 July 2007 Letter No. Financial-Supervisory-Securities-I-0960036213 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 14 : Approval Document No. : The 25 June 2008 Letter No. Financial-Supervisory-Securities-I-0970031749 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 15 : Approval Document No. : The 16 December 2008 Letter No. Financial-Supervisory-Securities-III0970068202 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 16 : Approval Document No. : The 9 July 2009 Letter No. Financial-Supervisory-Securities-0980034309 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 17 : Approval Document No. : The 8 October 2009 Letter No. Financial-Supervisory-Securities-0980053814 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 18 : Approval Document No. : The 9 March 2010 Letter No. Financial-Supervisory-Securities-0990010834 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 19 : Approval Document No. : The 2 July 2010 Letter No. Financial-Supervisory-Securities-0990034358 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 20 : Approval Document No. : The 30 June 2011 Letter No. Financial-Supervisory-Securities-1000030339 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 21 : Approval Document No. : The 8 November 2011 Letter No. Financial-Supervisory-Securities-1000054193 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 22 : Approval Document No. : The 23 September 2010 Letter No. Financial-Supervisory-Securities-09900541928 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 23 : Approval Document No. : The 11 October 2013 Letter No. Financial-Supervisory-Securities-1020041961 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 24 : The 12 January 2011 Letter No. Financial-Supervisory-Securities-1000000751 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

2014.04.21 Unit : Share

Type of stock	Authorized Capital			Remark
	Outstanding shares	Unissued Shares	Total	
Common Stock	840,352,125	159,647,875	1,000,000,000	(1) Of our authorized capital, 16,000,000 shares are reserved for the exercise of stock warrants, preferred shares with warrants, or corporate bonds with warrants (2) The outstanding shares include 16,914,000 shares of treasury stock bought back by HTC to be used for transfer to employees.

2. Shareholder structure:

2014.04.21

Structure	Shareholder						
	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Treasury stock	Total
Number of shareholders	1	20	357	751	134,719	1	135,849
Shareholding	14	15,150,339	143,511,737	186,062,269	478,713,766	16,914,000	840,352,125
Holding percentage	0.00%	1.80%	17.08%	22.14%	56.97%	2.01%	100.00%

3. Distribution of ownership:

2014.04.21 Each share has a par value of NT$10

Shareholder Ownership (Unit : share)	Number of Shareholders	Ownership	Ownership (%)
1 - 999	22,288	3,779,508	0.45%
1,000 - 5,000	98,575	181,633,371	21.61%
5,001 - 10,000	8,713	66,110,422	7.87%
10,001 - 15,000	2,416	30,680,287	3.65%
15,001 - 20,000	1,284	23,457,908	2.79%
20,001 - 30,000	1,002	25,312,465	3.01%
30,001 - 40,000	451	16,099,328	1.92%
40,001 - 50,000	280	12,966,141	1.54%
50,001 - 100,000	439	31,034,583	3.69%
100,001 - 200,000	198	28,348,592	3.37%
200,001 - 400,000	87	24,627,642	2.93%
400,001 - 600,000	28	13,723,767	1.63%
600,001- 800,000	15	10,807,124	1.29%
800,001 - 1,000,000	11	10,112,563	1.20%
Over 1,000,001	62	361,658,424	43.05%
Total	135,849	840,352,125	100.00%

4. List of principal shareholders:

2014.04.21 Each share has a par value of NT$10

Name of principal shareholders	Shares: Current Shareholding	Shares: Percentage
Way-Chih Investment Co., LTD.	43,819,290	5.21%
Way-Lien Technology Inc.	37,653,231	4.48%
Cher Wang	32,272,427	3.84%
Hon-Mou Investment Co., Ltd.	24,385,081	2.90%
Wen-Chi Chen	22,391,389	2.66%
Standard Chartered Bank in custody for VANGUARD EMERGING MARKETS STOCK INDEX FUND	13,488,925	1.61%
Invesco Funds-Invesco Greater China Equity Fund	11,611,000	1.38%
Kun Chang Investment Co, Ltd.	9,982,824	1.19%
Credit Suisse Securities (Europe) Limited	9,072,944	1.08%
JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority	8,762,833	1.04%

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

Item		Year	2012	2013	2014.01.01-2014.03.31
Market price per share	Highest market price		672	307.5	157.5
	Lowest market price		191	122	125
	Average market price		381.41	208.42	139.92
Net worth per share (Note)	Before distribution		96.57	94.37	92.87
	After distribution		94.57	94.37	92.87
Earnings per share	Weighted average shares (thousand shares)		831,980	829,082	823,438
	Earnings per share		20.21	(1.60)	(2.28)
	Retroactively adjusted earnings per share		20.21	(1.60)(Note)	(2.28)
Dividends per share	Cash dividends		2	0(Note)	
	Stock dividends	Dividends from retained earnings	0	0(Note)	
		Dividends from capital surplus	-	-	
	Accumulated undistributed dividend		-	-	
Return on investment	Price/Earnings ration		18.87	NA	
	Price/Dividend ratio		190.71	NA(Note)	
	Cash dividend yield		0.52%	0(Note)	

Note ：2014 pending on the approval of the Shareholders Meeting.

6. Dividend policy：

1. **Dividend policy：**

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

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

1. To pay taxes.
2. To cover accumulated losses, if any.
3. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital.
4. To recognize or reverse special reserve return earnings.
5. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after withholding the amounts under subparagraphs 1 to 4.
6. To pay bonus to employees at 5% minimum of the balance after withholding the amounts under subparagraphs 1 to 4, or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include employees serving with affiliates who meet specific requirements. Such specific requirements shall be prescribed by the board of directors.
7. For any remainder, the board of directors shall propose allocation ratios based on the dividend policy set forth in paragraph 2 of this Article and propose them at the shareholders' meeting.

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

HTC will not distribute stock dividends at the 2014 Annual Shareholders' Meeting.

3. **There is no material change in dividend policy.**

7. Impact of the stock dividend proposal on operational performance and earnings per share：

HTC will not distribute stock dividends at the 2014 Annual Shareholders' Meeting; therefore it is not applicable.

8. Employee profit sharing and compensation for Directors and Supervisors：

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

The Company's Articles of Incorporation stipulate that earnings shall be allocated in the following order:

1. To pay taxes.
2. To cover accumulated losses, if any.
3. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital.
4. To recognize or reverse special reserve return earnings.
5. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after withholding the amounts under subparagraphs 1 to 4.
6. To pay bonus to employees at 5% minimum of the balance after withholding the amounts under subparagraphs 1 to 4, or such balance plus the unappropriated retained earnings of previous years.

(2) Employee bonus proposal adopted by the Board：

HTC will not distribute Employee Bonus at the 2014 Annual Shareholders' Meeting; therefore it is not applicable.

(3) Distributions of 2012 employees' bonus and remunerations for Directors and Supervisors:

Distributions of earnings in 2012		
Date of the Board resolution		2013.05.01
Date of Annual Shareholders' Meeting		2013.06.21
Total stock bonus as employee bonus	Total Number of Shares	0
	Total Amount (NT$1,000)	0
Total cash bonus as employee bonus (NT$1,000)		976,327
Total employee bonus (NT$1,000)		976,327
Director' and Supervisors' Remuneration (NT$1,000)		0

9. Share repurchases:

Topic	Explanation
Eleventh Estimation of Share Buy-back Status	
Board of Director resolution	8/2/2013
Purpose of the share buy-back	To transfer stocks to employees. According to the Regulations Governing Share Repurchase by Listed and OTC Companies, Article 2 requires to buy back Treasury stocks.
Type of share buy-back	Common stock
Total amount allocated for share buy-back	NTD 4,350,000,000
Buy-back period	8/5/2013-10/4/2013
Estimated number of buy-back shares (as percentage of total outstanding shares) (Note 1)	15,000,000 shares (1.76%)
Estimated buy-back price interval	Buy-back stock price is between NTD 140 to NTD 290. It is further resolved by the Board of Directors to continue buy-back of shares if the stock price falls under NTD 140.
Method of Buy-back	Buy-back shares from stock exchange
Eleventh Actual Stock Buy-back Status	
Buy-back period	8/20/2013-10/4/2013
Number of buy-back shares (as a percentage of total shares outstanding)(Note 2)	7,789,000 shares (0.91%)
Total amount for buy-back shares	NTD 1,033,845,666
Average price per buy-back share	NTD 132.73
Number of Shares Cancelled or Transferred	7,789,000 shares
Cumulative number of own shares held	28,614,045 shares
Ratio of cumulative number of own shares held during the repurchase period to the total number of the Company's issued shares	3.36%

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

2. Issuance of Corporate Bonds

None

3. Status of Preferred Shares

None

4. Global Depository Receipts

2014.03.31

Issue Date			2003.11.19
Issuance and Listing			Luxembourg
Total amount			USD 105,182,100.60
Offering price per GDR			USD 15.4235
Units issued			9,015,121 units (note)
Underlying securities			Cash offering and common shares from selling shareholders
Common shares represented			36,060,497 shares (note)
Rights and obligations of GDR holders			Same as that of common share holders
Trustee			Not applicable
Depositary bank			Citibank, N.A.–New York
Custodian bank			Citibank Taiwan Limited
GDRS outstanding			735,672 units
Apportionment of expenses for issuance and maintenance			All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of GDRS were borne by HTC and the selling shareholders, while maintenance expenses such as annual listing fees and accounting fees were borne by HTC.
Terms and conditions in the deposit agreement and custody agreement			See deposit agreement and custody agreement for details
Closing price per GDR	2013	High	USD 41.81
		Low	USD 17.01
		Average	USD 28.29
	2014.01.01-2014.03.31	High	USD 20.07
		Low	USD 16.74
		Average	USD 18.24

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

5. Employee Share Warrants

Employee share warrants are adopted to attract and retain important talent necessary for the company's development, and to increase employees' commitment and dedication to the company, so as to jointly benefit the company and its shareholders.

The 2th Grant was approved by Financial Supervisory Commission, Executive Yuan on September 9, 2013 and the total quantity of the current issue is 15,000,000 units. Each stock warrant unit may be used to purchase one share of common stock of HTC. The share purchase price shall be the closing price of HTC common stock on the date of issuance of the employee stock warrants.

1. Issuance of employee share warrants and impact to shareholders' equity

2014.05.15

Employee Stock Options Granted	2nd Grant
Approval Date	September 9, 2013
Issue (Grant) Date	November 11, 2013
Number of Options Granted	15,000,000
Percentage of Shares Exercisable to Outstanding Common Shares	1.76%
Option Duration	The duration of the stock warrants is 7 years. The stock warrants and rights and interests therein may not be transferred, pledged, given to others, or disposed in any other manner, except by succession.
Source of Option Shares	New Common Share
Vesting Schedule (%)	After 2 full years have elapsed from the time the stock warrant holder is allocated the employee stock warrants, the warrant holder may exercise the share purchase rights according to the schedule set out below. Percentage of share purchase rights that may be exercised according to the time elapsed since the allocation of the stock warrants (cumulative) Two full years have elapsed: 60% Three full years have elapsed: 100%
Shares Exercised	0
Value of Shares Exercised	NTD 0
Shares Unexercised	15,000,000 shares
Adjusted Exercise Price Per Share	NTD 149
Percentage of Shares Unexercised to Outstanding Common Shares	0%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited

2. Employee stock options granted to management team and to top 10 employees

2014.05.15

	Title	Name	Number of Option Acquired	Number of Option Acquired / Number of Option Issued (Note1)	Exercised: Number of Option	Exercised: Exercise Price (NTD)	Exercised: Option amount	Exercised: Number of Option /Number of Option Issued (Note2)	Not Exercised: Number of Option	Not Exercised: Exercise Price (NTD)	Not Exercised: Option amount	Not Exercised: Number of Option / Number of Option Issued (Note 2)
Managers	Chief Executive Officer& President	Peter Chou	3,160,000shares	0.37%	0share	NTD149	NTD0	0%	3,160,000shares	NTD149	NTD470,840,000	0.38%
	President of Engineering and Operations	Fred Liu										
	President of Global Sales & Chief Financial Officer	Chialin Chang										
	Chief Engineering Officer	David Chen										
	Chief Marketing Officer	Ben Ho										
	Former Senior Vice President and Head of Design (Note3)	Scott Croyle										
	President of North America	Jason Mackenzie										
	President of EMEA	Phil Blair										
	President of North Asia and China	Jack Tong										
	President of South Asia	Jackson Yang										
	General Counsel	Grace Lai										
	Vice President, Talent Management	Crystal Liu										
	Vice President, Procurement & Supply Engineering	Simon Lin										
	Vice President, Hardware Engineering	WH Liu										
	Vice President, Wireless Software	Simon Hsieh										
	Vice President, MFG Operation	CS Wang										
	Vice President, Product Quality Assurance	Georges Boulloy										
	Vice President, MASD	Steve Wang										
	Vice President, Emerging Devices	Mike Woodward										
	Associate Vice President, Finance & Accounting	James Chen										
	Associate Vice President, Finance & Accounting	Edward Wang										
Employees	None											

Note 1 : The percentage is calculated based on the issued shares, 842,350,538.
Note 2 : The information is calculated based on the issued shares, 840,352,125.
Note 3 : Scott Croyle resigned on 15 May, 2014.

6. New Restricted Employee Shares

During the current fiscal year up to the date of printing of this annual report, HTC has not issued any new restricted employee shares.

7. Issuance of New Shares for Mergers and Acquisitions

1. During the current fiscal year up to the date of printing of this annual report, the Company has not issued new shares for mergers and acquisitions.

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

8. Implementation of the Company's Funds Utilization Plan

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

CHAPTER 6

FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

1. Financial Status

Unit：NT$ thousands

Item	2013	2012	Difference Amount	Difference %
Current Assets	111,507,281	136,132,425	(24,625,144)	(18)
Properties	25,561,399	25,990,766	(429,367)	(2)
Intangible Assets	8,664,066	11,683,170	(3,019,104)	(26)
Other Assets	26,896,441	33,442,631	(6,546,190)	(20)
Total Assets	172,629,187	207,248,992	(34,619,805)	(17)
Current Liabilities	94,513,990	126,268,363	(31,754,373)	(25)
Non-current Liabilities	407,537	707,935	(300,398)	(42)
Total Liabilities	94,921,527	126,976,298	(32,054,771)	(25)
Capital Stock	8,423,505	8,520,521	(97,016)	(1)
Capital Surplus	15,360,307	16,601,557	(1,241,250)	(7)
Retained Earnings	66,286,308	70,102,031	(3,815,723)	(5)
Other Equity	557,698	(885,925)	1,443,623	(163)
Treasury Stock	(12,920,158)	(14,065,490)	1,145,332	(8)
Non-Controlling Interest	-	-	-	
Total Stockholders' Equity	77,707,660	80,272,694	(2,565,034)	(3)

* All numbers above are based on consolidated financial statements.

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

Assets: The level of current assets decreased in 2013 vs. 2012. This reduction was mainly due to lower revenue, as the global market competition increases, resulting in net cash outflow and lower accounts receivables. Intangible assets saw a reduction in 2013 vs. 2012, due to the derecognition of investment premium of intangible assets as the disposal of subsidiary companies. Other assets saw a decrease from 2012 to 2013, mainly due to disposal of residual interest of affiliated enterprises.

Debt: Liabilities decreased from 2012 to 2013, mainly due to lower revenues and related reductions in purchasing and accounts payables.

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

2. Operating Results

Unit：NT$ thousands

Item	2013	2012	Difference	%
Revenues	203,402,648	289,020,175	(85,617,527)	(30)
Gross Profit	42,270,753	72,930,849	(30,660,096)	(42)
Operating (Loss) Profit	(3,970,522)	18,827,314	(22,797,836)	(121)
Non-operating Income and Expenses	3,774,878	630,751	3,144,127	498
Net Income (Loss) Before Tax	(195,644)	19,458,065	(19,653,709)	(101)
Net Income (Loss) From Continuing Operations	(1,323,785)	17,621,793	(18,945,578)	(108)
Non-Continuing Operations Loss	-	-	-	-
Net Income (Loss)	(1,323,785)	17,621,793	(18,945,578)	(108)
Other Comprehensive Income And Loss For The Year, Net of Income Tax	1,428,310	(893,331)	2,321,641	(260)
Total Comprehensive Income For The Year	104,525	16,728,462	(16,623,937)	(99)
(Loss) Profit For The Year Attributable To Owners Of The Parent	(1,323,785)	16,813,575	(18,137,360)	(108)
(Loss) Profit For The Year Attributable To Non-Controlling Interest	-	808,218	(808,218)	(100)
Total Comprehensive Income Attributable To Owners Of the Parent	104,525	15,920,244	(15,815,719)	(99)
Total Comprehensive Income Attributable To Non-Controlling Interest	-	808,218	(808,218)	(100)
Earnings Per Share	(1.60)	20.21	(22)	(108)

* All numbers above are based on consolidated financial statements. 。

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

Intensifying competition in the world's mobile phone market led to lower revenue in 2013 compared to 2012. Gross profit in 2013 was down 42% vs. 2012 as a result of increasingly competitive product pricing. To maintain the scope of global marketing efforts operating profit were reduced by 121% YoY.

HTC's revenue comes mainly from its primary business. Main non-operating income and expenses come from the disposal of residual shares of Associates. Other comprehensive income for the year increased compared to 2012 due to the exchange rate fluctuation from recognizing accumulated translation adjustment of overseas subsidiaries.

3. Cash Flows

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

Item \ Year	2013	2012	%
Cash Flow Ratio (%)	(17.17)	18.69	(192)
Cash Flow Adequacy Ratio (%)	109.71	126.39	(13)
Cash Flow Reinvestment Ratio (%)	(19.78)	(10.66)	86

Explanation and analysis of change:

2013 revenue was down YoY, which turned net cash flow in operating activities from net cash inflow to net cash outflow and brought the cash flow ratio to -17%. Cash flow adequacy ratio decreases 110%. Cash flow reinvestment ratio decreases to -19% due to the continued payment of cash dividend and cash outflow in operating activities in 2013.

2. Cash flow analysis for the coming year

We expect our net cash flows from operating activities and ample cash on-hand can fully support capital expenditures, cash dividends and all other cash needs in 2014.

4. The Effect on Financial Operations of Material Capital Expenditures During the Most Recent Fiscal Year

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

(1) Material capital expenditure and funding sources

Unit：NT$ thousands

Planned Item	Actual or projected sources of capital	Actual or projected date of completion	Total capital needed (as of FY 2013)	Actual or projected capital utilization		
				2011	2012	2013
Purchas and Installation of Equipment / Facilities	Working capital	2010-2013	12,558,351	3,946,634	3,374,528	1,947,341
Plant/Building Construction	Working capital	2010-2013	10,357,135	4,490,062	3,547,319	377,836

2. Anticipated benefits

New Plant / Building Construction

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

New Equipment / Facilities

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

HTC's operation is in good condition. The capital expenditures in recent years were mainly from our own operating capital. Therefore there is no great impact on the company's finance.

5. Investment Diversification in Recent Years

HTC's strategic investments focus on the industrial segments that will enhance HTC's core businesses and long-term strategic developments. Project evaluation is based on industry dynamics, market competition, founding team experience, business model, risk analysis, et cetera. The final goal is to make key strategic investments ,whether via minority or control, in companies and industries that will strengthen HTC's product and service offerings and its long-term competitiveness.

In 2013 HTC focuses on reallocation and disposal of existing investment portfolio; therefore there is no strategic investment of any kind this year. HTC will focus on investments in Asia market, especially in the Greater - China region in the future. Investments will mainly be in the area of firmware, cloud technology, mobile Internet and related services, etc.

6. Competitive Advantages, Business Growth and Assessment of Risks

1. Potential factors that may influence HTC's competitiveness / business growth and related countermeasures

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

• Factors favorable to HTC growth

(1) Partnerships with industry leaders help HTC drive industry trends

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

(2) Long-term cooperative relationships with telecom providers keep HTC abreast of consumer demand

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

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

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

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

HTC promotes a unique corporate culture that is designed to instill passion for innovation and commitment to the highest standards. Our lack of barriers between departments promotes synergy and dynamism even further. HTC's highly efficient operations have been affirmed by numerous international quality standards including ISO 9001, TL 9000, and IECQ QC 080000. Outstanding in-house research and development capabilities give HTC the competitive edge to reach the market first with many industry leading innovations and features.

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

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

• Factors adverse to the achievement of HTC growth goals and relevant countermeasures

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

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

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

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

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

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

2. Risk factors

The following describes identified risks and related mitigating measures.

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

Impact on HTC profitability:

Item	2013 (NT$1,000 or %)
Net Interest Income	545,950
Net Forex Income	423,562
Net Interest Income as percentage of Net Revenue	0.27%
Net Interest Income as percentage of Earnings Before Tax	-279.05%
Net Forex Income as percentage of Net Revenue	0.21%
Net Forex Income as percentage of Earnings Before Tax	-216.50%

Note: Calculation is based on HTC consolidated financial numbers

Working capital required to support the expansion of HTC business operations has over recent years been supplied exclusively from internal finances. As the corporation has not taken out long-term loans, fluctuations in interest rates have had no effect on the Company's liabilities. HTC is prudent in its financial policies, and our asset allocation decisions prioritize security and fluidity, with most funds kept in time deposit accounts. In 2013, HTC interest income totaled NT$550 million.

HTC's revenues are denominated primarily in US dollars (USD) and euros (EUR). Manufacturing costs are denominated primarily in US dollars. Forex fluctuations have the potential to impact HTC revenues, operating costs and operating profits. Apart from efficient management of the quality and payment cycles of its foreign currency denominated accounts receivable, HTC uses forward exchange contracts to minimize its forex risk. At the close of 2013, financial derivatives held by HTC related to exchange risk were valued at USD391 million, EUR79 million, GBP14 million, JPY3,755 million, CNH 622.5 million and CAD9.5 million. Fair value of the derivatives changes as a result of forex fluctuations. A decrease of 1% in the quoted exchange rate of any one of the abovementioned currencies against the NT dollar would result in a derivatives holding benefit to HTC of approximately NT$181 million.

During 2013, the euro appreciated against the NT dollar from 1:38 to 1:41. The US dollar depreciated from 1:29.1 against the NT dollar to approximately 1:30. Net exchange income earned during 2013 totaled NT$423.5 million. Under effective management by the Company, negative effects of exchange rate fluctuations on profits in recent years have been minimal.

Inflation in Taiwan was approximately 0.79% in 2013. Inflation rates in North American and European markets were also relatively negligible. Overall, inflation had no significant impact on HTC profits.

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

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

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

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

In addition to further developing its existing smartphone product line, the Company will continue to research and develop technologies that enhance the user experience, such as wide-angle front camera technologies that allow users to have an ever-more perfect self-shooting experience by enabling the lens to image a broader background. The Duo Camera boasts a depth sensor that enables a wide range of beautiful images and better user experiences. The high efficiency, low distortion headphone amplifiers and built-in speakers make the sound even more stunning. Developing and enhancing all new Smart Sensor Hub provide users new and more intuitive user experiences and provide more health information by improving fitness and sport application through the full integration with BlinkFeed. HTC is also exploring dual card, dual mode capabilities that permit dual card users to answer incoming calls whether surfing the Internet or downloading information, while the phone smoothly juggles all the necessary systems. Through HTC's advanced technologies users will continue to enjoy richer, more personalized mobile phone experiences. In addition, through more open developing functions and environments (HTCDev), developers from all over the world can utilize the powerful hardware/software functions of HTC smartphone such as strong computing processor, best camera and sound effects, smart sensor, best Sense and BlinkFeed to develop applications that enable users to have more and best user experiences.

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

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

The Financial Supervisory Committee (FSC) of the Executive Yuan has required all listed companies in Taiwan to prepare financial statements in accordance with the International Financial Reporting Standards (IFRSs) starting from January 1, 2013. Starting from 2013, HTC has prepared financial statements in accordance with IFRSs.

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

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

Wireless telecommunications is an important growth sector within the IT industry and the smartphone is its flagship product. Responding to rapid mobile internet growth and communication technology migration to 3G/4G, HTC has leveraged outstanding R&D capabilities in partnerships with global telecom leaders to launch numerous "world firsts" that include the world's first Windows Mobile, Android, dual mode GSM/WiMAX, and LTE Android mobile phones. The launch of a diverse range of products through many carriers worldwide has built up HTC's significant position in the global telecommunications industry and created exceptional business opportunities. In the meantime, in order to timely respond to the fast-growing and coming to mature LTE technology and market, HTC continues to invest more developing resources to ensure HTC devices to fully meet the demands of global telecom carriers to ensure HTC's leadership position in 4G market and technology. HTC will continue to use its resources to develop new technologies and enhance the holistic user experience in order to deliver products and services that fit all high-end, mid-end, and low-end segment market demands.

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

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

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

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

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

In response to global market demand for smartphone devices, in addition to the continuous review and improvement of manufacturing processes to improve production capabilities, quality, and cost savings, the margin of low and middle price tier smartphone is getting lower. The professional assemble subcontractor in both production line deployment and production skills can easily create economy of scale. Therefore HTC considers outsourcing ODM production of some low-price tier smartphone to create price competitiveness. There is no demand for plant expansion.

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

Purchases:

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

Sales:

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

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

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

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

There was no change in HTC managerial control in 2013.

(12) Lawsuit：

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

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

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

In March 2012, Washington Court granted on the Company's summary judgment motion and ruled on non-infringement of two of patents-in-suit. 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.

2. From May 2011 onwards, Nokia Corporation ("Nokia") and the Company filed patent infringement actions against the other respectively in the U.S. International Trade Commission ("ITC"), U.S. District Court for the District of Delaware, German district courts, and English High Court. On February 8, 2014, the two companies reached a settlement that included the dismissal of all current lawsuits and a patent and technology collaboration agreement. The Company will make payments to Nokia and the collaboration will involve the Company's LTE patent portfolio, further strengthening Nokia's licensing offering. The companies will also explore future technology collaboration opportunities.

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

None.

(14) Risk management organization structure

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

7. Other Important Matters

1. Certification details of employees whose jobs are related to the release of the Company's financial information

	Number of Employees	
Certification	Finance and Accounting Division	Internal Audit
Certified Public Accountants (CPA)	8	2
Internal Auditor	1	4
US Certified Public Accountants (US CPA)	3	1
Certified Internal Auditor (CIA)	-	4
Chartered Financial Analyst (CFA)	2	-
Financial Risk Manager (FRM)	1	-

CHAPTER 7

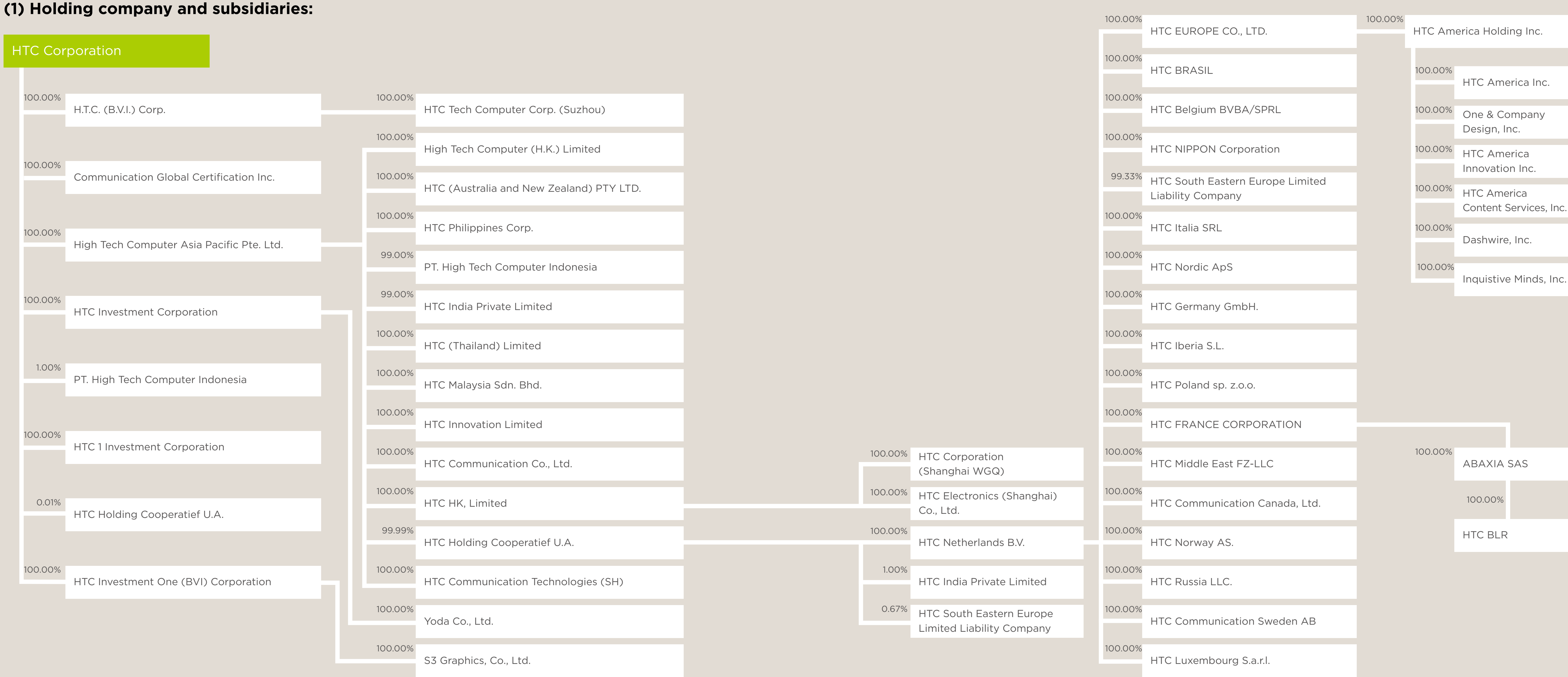
AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

1. Affiliates

1. HTC affiliated companies chart

(1) Holding company and subsidiaries:



(2) Reciprocal affiliation: None

2. HTC affiliated companies

Amount in thousands

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investor :				
HTC Corporation	1997.05.15	No.23, Xinghua Rd., Taoyuan City, Taoyuan County 330, Taiwan, R.O.C.	NTD8,423,505	Principally engaged in the design, manufacture and marketing of PDA phones, smartphones and handheld devices, as well as the provision of related technologies and after services
Investee :				
H.T.C. (B.V.I.) Corp.	2000.08.01	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD3,667,514 (USD122,520)	International holdings
Communication Global Certification Inc.	1998.09.01	4F., No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD290,568	Import of controlled telecommunications radio frequency devices and information software
High Tech Computer Asia Pacific Pte. Ltd.	2007.07.12	260 Orchard Road #07-04 Heeren, Singapore	NTD22,195,793 (SGD937,838)	Global investing activities, marketing, repair and after-sales services
HTC Investment Corporation	2008.07.24	1F., No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD300,000	General investing activities
HTC 1 Investment Corporation	2009.09.14	4F., No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD295,000	General investing activities
HTC Investment One (BVI) Corporation	2011.06.20	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD11,617,595 (USD388,107)	Holding S3 Graphics Co., Ltd. and general investing activities
HTC Tech Computer Corp. (Suzhou)	2003.01.01	Suzhou Industrial Park, China	NTD598,680 (USD20,000)	Manufacturing and sale of smart handheld devices and electronic components
High Tech Computer (H.K.) Limited	2007.08.03	Unit 808-09A, 8th Floor, AIA Tower, 183 Electric Road, North Point, Hong Kong	NTD77,212 (HKD20,000)	Marketing, repair and after-sales services
HTC (Australia and New Zealand) PTY LTD.	2007.08.28	Suite 3002, Level 30, 100 Miller Street, North Sydney, Australia	NTD106,787 (AUD4,000)	Marketing, repair and after-sales services
HTC Philippines Corporation	2007.12.06	UNIT 32 3/F WORLDNET BUSINESS CENTER ZETA BLDG 191, SALCEDO ST LEGASPI VILLAGE, MAKATI CITY 1229	NTD5,789 (PHP8,588)	Marketing, repair and after-sales services
PT. High Tech Computer Indonesia	2007.12.03	PLAZA SEMANGGI 7th Floor, unit No. Z07-006 Kawasan Bisnis Granadha Jl. Jend. Sudirman Kav. 50 Jakarta-12930 Indonesia	NTD4,180 (IDR1,699,313)	Marketing, repair and after-sales services
HTC (Thailand) Limited	2007.11.06	No. 53 Sivayathorn Building, 14th Floor, Room No. 1401, Wittayu Road, Lumpini Sub-district, Patumwan District, Bangkok, Thailand	NTD22,812 (THB25,000)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC India Private Limited	2008.01.30	Unit No.4, Ground Floor, BPTP Park Centra, Sector 30, NH8, Gurgaon 12200, Haryana, India	NTD2,424 (IDR5,000)	Marketing, repair and after-sales services
HTC Malaysia Sdn. Bhd.	2007.11.07	Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	NTD2,283 (MYR250)	Marketing, repair and after-sales services
HTC Innovation Limited	2009.01.30	4F, Seoul Finance Center. 84 Taepyung-ro 1-ka, Chung-ku, Seoul, 100-768 Korea	NTD1,418 (KOW50,000)	Marketing, repair and after-sales services
HTC Communication Co., Ltd.	2008.12.29	2F South, No.1000, Xinmiao Village, Kangqiao Town, Pudong New Area, Shanghai, China	NTD823,185 (USD27,500)	Sale of smart handheld devices and electronic components
HTC HK, Limited	2006.08.26	31/F The Center 99 Queen's Road Central HK	NTD4,135,774 (HKD1,071,283)	Global investing activities, marketing, repair and after-sales service
HTC Holding Cooperatief U.A.	2009.08.18	Orteliuslaan 850, 3528BB Utrecht	NTD15,693,071 (EUR380,295)	International holdings
HTC Communication Technologies (SH)	2011.08.01	Room 102, No.2, Boujun Road, Zhang Jiang Hi-Tech Park, Shanghai, China	NTD119,736 (USD4,000)	Design, research and development of application software
S3 Graphics Co, Ltd.	2001.01.03	P.O. Box 709 George Town Grand Cayman	NTD10,561,913 (USD352,840)	Design, research and development of graphics technology
Yoda Co., Ltd.	2012.09.24	4F., No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD20,000	Restaurants and parking lot business, and building cleaning services
HTC Corporation (Shanghai WGQ)	2007.07.09	6A, No.288, Hedan Rd., Waigaoqiao Free Trade Zone, Shanghai, China	NTD44,901 (USD1,500)	Repair and after-sales services
HTC Electronics (Shanghai) Co., Ltd.	2007.01.22	Room 123, No. 2502, Hunan Road, Kangqiao Industrial Zone, Nanhui District, Shanghai, China	NTD3,978,498 (USD132,909)	Manufacture and sale of smart handheld devices and electronic components
HTC Netherlands B.V.	2009.11.11	Orteliuslaan 850, 3528BB Utrecht	NTD14,399,314 (EUR348,943)	Global investing activities, marketing, repair and after-sales service
HTC EUROPE CO., LTD.	2003.07.09	Salamanca Wellington Street Slough Berkshire England SL1 1YP	NTD11,591,682 (GBP234,287)	Global investing activities, marketing, repair and after-sales service
HTC BRASIL	2006.10.25	Rua James Joule, No.92, Suite 82, 7th Floor, Edificio Plaza.1, in the City of Sao Paulo, State of Sao Paulo.	NTD25,180 (BRL1,987)	Marketing, repair and after-sales services
HTC Belgium BVBA/SPRL	2006.10.12	Henri van Heurckstraat 15, 2000 Antwerpen	NTD784 (EUR19)	Marketing, repair and after-sales services
HTC NIPPON Corporation	2006.03.22	13F, Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo Japan	NTD2,851 (JPY10,000)	Sale of smart handheld devices and electronic components
HTC FRANCE CORPORATION	2010.04.02	123 RUE DU CHATEAU 92100 BOULOHNE BILLANCOURT	NTD268,226 (EUR6,500)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC South Eastern Europe Limited Liability Company	2010.04.27	Kifissias 90, Marousi 15125, Athens, Greece	NTD186 (EUR4.5)	Marketing, repair and after-sales services
HTC Nordic ApS.	2010.07.01	A.P. Møllers Allé 9B, 2791 Dragør, Denmark	NTD443 (DKK80)	Marketing, repair and after-sales services
HTC Italia SRL	2007.02.19	Via Caterina Troiani 75 00144 Rome Italy	NTD413 (EUR10)	Marketing, repair and after-sales services
HTC Germany GmbH.	2010.09.06	Solmsstrasse 18, Gebäude E 60486 Frankfurt am Main Germany	NTD1,032 (EUR25)	Marketing, repair and after-sales services
HTC Iberia S.L.	2010.10.08	Avda. de la Industria 4, Natea Business Park, Edif 3. planta 3 D 28108 Alcobendas, Madrid Spain	NTD124 (EUR3)	Marketing, repair and after-sales services
HTC Poland sp. z o.o.	2010.09.01	ul. Postępu 21B 02-676 Warszawa Poland	NTD2,328 (PLN234)	Marketing, repair and after-sales services
HTC Communication Canada, Ltd.	2011.01.25	2900-550 Burrard Street,Vancouver BC V6C 0A3, Canada	NTD44,901 (USD1,500)	Marketing, repair and after-sales services
HTC Norway AS.	2011.08.25	Fjordveien 3, 1363 Høvik, Norway	NTD3,839 (NOK780)	Marketing, repair and after-sales services
HTC Russia LLC.	2011.06.28	12th Floor, office 1203, BC Pollars, block C, Derbenevskaya nab. 11, Moscow, 115114, Russian Federation	NTD11,489 (RUB12,610)	Sale of smart handheld devices and electronic components
HTC Communication Sweden AB	2011.09.26	C/O Greeting Park Veneu, Engelbrektsgatan 9-11 114 32 STOCKHOLM	NTD4,660 (SEK1,000)	Marketing, repair and after-sales services
HTC Luxembourg S.a.r.l.	2011.05.31	9, Parc d'Activites Syrdall, L-5365, Luxembourg	NTD516 (EUR12.5)	Online/download media services
HTC Middle East FZ-LLC	2012.07.08	3701A&3704A, 37 Floor, Business Central Towers, Dubai, United Arab Emirates	NTD28,524 (AED3,500)	Marketing, repair and after-sales services
HTC America Holding Inc.	2010.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD6,978,394 (USD233,126)	International holdings
ABAXIA SAS	2003.02.19	40 rue Madeleine Michelis 92200 Neuilly sur Seine, France	NTD3,343 (EUR81)	Design, research and development of application software
HTC America Inc.	2003.01.06	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD538,812 (USD18,000)	Sale of smart handheld devices and electronic components
One & Company Design, Inc.	2003.10.04	2700 18th Street San Francisco, CA,USA, 94110	NTD1,078 (USD36)	Design, research and development of application software
HTC America Innovation Inc.	2010.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD89,802 (USD3,000)	Design, research and development of application software
HTC America Content Services, Inc.	2011.03.28	13920 SE Eastgate Way, Suite 400, Bellevue, WA 98005	NTD152,663 (USD5,100)	Online/download media services
Dashwire, Inc.	2006.08.11	936 N. 34th Street, Suite 200 Seattle, WA 98103	NTD0.003 (USD0.0001)	Cloud Synchronization Technology design and management
Inquisitive Minds, Inc.	2008.12.04	655 W Evelyn Ave, Suite 3, Mountain View, CA94041	NTD0.03 (USD0.001)	Cross-platform multimedia computing and digital patent management
HTC BLR	2006.11.09	203-25 Ulitsa Yanki Kupaly Minsk, 220030, BELARUS	NTD134 (BYR42,820)	Design, research and development of application software

Note: Paid-in capital is translated at the exchange rates prevailing on 2013.12.31.

3. Common shareholders of HTC and its Subsidiaries or its Affiliates with actual deemed control:

None.

4. Industries covered by the businesses operated by all Affiliates and intra-firm division of labor:

1. Industries covered by the businesses operated by all affiliates:

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

2. Division of labor among all affiliates:

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

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

5. Information of Directors, Supervisors, and Presidents of HTC affiliated companies

Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
Investor：				
HTC Corporation	Chairperson	Cher Wang	32,272,427 shares	3.83%
	Director	Wen-Chi Chen	22,391,389 shares	2.66%
	Director	HT Cho	145,530 shares	0.02%
	Director	Rick Tsai	-	-
	Director	David Bruce Yoffie	-	-
	Independent Director	Chen-Kuo Lin	-	-
	Independent Director	Josef Felder	133,985 shares	0.02%
	Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	43,819,290 shares	5.20%
	Supervisor	Huang-Chieh Chu	-	-
Investee：				
H.T.C. (B.V.I.) Corp.	Chairperson	HTC Corporation Representative: Cher Wang	1,225,201,760 shares	100.00%
Communication Global Certification Inc.	Chairperson	HTC Corporation Representative: David Chen	29,056,807 shares	100.00%
	Director	HTC Corporation Representative: Simon Hsieh, Hsiu Lai	29,056,807 shares	100.00%
	Supervisor	HTC Corporation Representative: James Chen	29,056,807 shares	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	Director	HTC Corporation Representative: Peter Chou, Fred Liu, Lim Tiong Beng	714,534,059 shares	100.00%
HTC Investment Corporation	Chairperson	HTC Corporation Representative: Peter Chou	30,000,000 shares	100.00%
	Director	HTC Corporation Representative: Fred Liu, Chialin Chang	30,000,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Edward Wang	30,000,000 shares	100.00%
HTC 1 Investment Corporation	Chairperson	HTC Corporation Representative: Peter Chou	29,500,000 shares	100.00%
	Director	HTC Corporation Representative: Fred Liu, Chialin Chang	29,500,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Edward Wang	29,500,000 shares	100.00%
HTC Investment One (BVI) Corporation	Director	HTC Corporation Representative: Cher Wang	383,692,246 shares	100.00%
HTC Tech Computer Corp. (Suzhou)	Chairperson	H.T.C. (B.V.I.) Corp. Representative: Fred Liu	USD20,000 thousands	100.00%
High Tech Computer (H.K.) Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Chou	2,000,000 shares	100.00%
HTC (Australia and New Zealand) PTY LTD	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang, James Chen, Elson Pow	400,000 shares	100.00%
HTC Philippines Corporation	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Chou, Fred Liu, Majorie L. Elic, Juancho S. Ong, Edgardo C. Abenis	858,765 shares	100.00%
PT. High Tech Computer Indonesia	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Fred Liu	185,625 shares	99.00%
	Director	HTC Corporation Representative: Fred Liu	1,875 shares	1.00%
	Supervisor	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Chou	185,625 shares	99.00%
	Supervisor	HTC Corporation Representative: Peter Chou	1,875 shares	1.00%

(Continued)

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC (Thailand) Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Fred Liu	10,000,000 shares	100.00%
HTC India Private Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang, James Chen	495,000 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: Edward Wang, James Chen	5,000 shares	1.00%
HTC Malaysia Sdn. Bhd.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang, Jackson Yang, Yeoh Cheng Lee, Abd Malik Bin A. Rahman	25,000 shares	100.00%
HTC Innovation Limited	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: Jack Tong	5,000 shares	100.00%
HTC Communication Co., Ltd.	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: Fred Liu	USD 27,500 thousands	100.00%
HTC HK, Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Fred Liu, Abraxas Limited	1,071,283,030 shares	100.00%
HTC Holding Cooperatief U.A.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Chialin Chang, J. J. van Ginkel	EUR380,295 thousands	99.99%
	Director	HTC Corporation Representative: Chialin Chang, J. J. van Ginkel	EUR 0.28 thousands	0.01%
HTC Communication Technologies (SH)	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: David Chen	USD4,000 thousands	100.00%
S3 Graphics Co, Ltd.	Director	HTC Investment One (BVI) Corporation Representative: Peter Chou, Fred Liu, Grace Lei	386,338,516 shares	100.00%
Yoda Co., Ltd.	Chairperson	HTC Investment Corporation Representative: James Chen	20,000 thousands	100.00%
HTC Corporation (Shanghai WGQ)	Executive Director	HTC HK, Limited Representative: Fred Liu	USD1,500 thousands	100.00%
HTC Electronics (Shanghai) Co., Ltd.	Chairperson	HTC HK, Limited Representative: CS Wang	USD 132,909 thousands	100.00%
HTC Netherlands B.V.	Representative	HTC Holding Cooperatief U.A.	348,942,560 shares	100.00%
HTC EUROPE CO. LTD.	Director	HTC Netherlands B.V. Representative: Peter Chou, Fred Liu	234,286,633 shares	100.00%
HTC BRASIL	Representative	HTC Netherlands B.V.	1,987,399 shares	99.99%
	Representative	HTC Holding Cooperatief U.A.	1 share	0.01%
HTC Belgium BVBA/SPRL	Director	HTC Netherlands B.V. Representative: Fred Liu, Edward Wang, TMF Management	18,549 shares	100.00%
HTC NIPPON Corporation	Director	HTC Netherlands B.V. Representative: Fred Liu, Edward Wang, Ryoji Murai	1,000 shares	100.00%
HTC France Corporation	President	HTC Netherlands B.V. Representative: Philip Alan Blair	6,500,000 shares	100.00%
HTC South Eastern Europe Limited Liability Company	Administrator	HTC Netherlands B.V. Representative: Nikitas Glykas	149 shares	99.33%
	Administrator	HTC Holding Cooperatief U.A. Representative: Nikitas Glykas	1 share	0.67%
HTC Nordic ApS	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	80,000 shares	100.00%
HTC Italia SRL	Director	HTC Netherlands B.V. Representative: Philip Alan Blair	EUR10 thousands	100.00%

(Continued)

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC Germany GmbH	Director	HTC Netherlands B.V. Representative: Philip Alan Blair	25,000 shares	100.00%
HTC Iberia S.L.U.	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	3,006 shares	100.00%
HTC Poland sp z o.o.	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	4,687 shares	100.00%
HTC Communication Canada, Ltd.	Director	HTC Netherlands B.V. Representative: Jason Makenzie, Edward Wang	1,500,000 shares	100.00%
HTC Norway AS.	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	780,000 shares	100.00%
HTC Russia LLC.	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	USD400 thousands	100.00%
HTC Communication Sweden AB	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	1,000,000 shares	100.00%
HTC Luxembourg S.a.r.l.	Director	HTC Netherlands B.V. Representative: Chialin Chang, Martinus Cornelis Johannes Weijerman	12,500 shares	100.00%
HTC Middle East FZ-LLC	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	3,500 shares	100.00%
HTC America Holding, Inc.	Director	HTC EUROPE CO. LTD Representative: Chialin Chang	358,617,151 shares	100.00%
ABAXIA SAS	President	HTC France Corporation Representative: Cedric Mangaud	805,716 shares	100.00%
HTC America, Inc.	Director	HTC America Holding, Inc. Representative: Peter Chou, Fred Liu	1,000 shares	100.00%
One & Company Design, Inc.	Director	HTC America Holding, Inc. Representative: Edward Wang, Scott Croyle	60,000 shares	100.00%
HTC America Innovation, Inc.	Director	HTC America Holding, Inc. Representative: James Chen	1,000 shares	100.00%
HTC America Content Services, Inc.	Director	HTC America Holding, Inc. Representative: Chialin Chang	1,000 shares	100.00%
Dashwire, Inc.	Director	HTC America Holding, Inc. Representative: Chialin Chang	100 shares	100.00%
Inquisitive Minds, Inc.	Director	HTC America Holding, Inc. Representative: Chialin Chang	100 shares	100.00%
HTC BLR	Director	ABAXIA SAS Representative: Ongan Mordeniz	BYR 42,820 thousands	100.00%

6. Operational highlights of HTC affiliated companies

Unit: NT$ thousands

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
Investor：								
HTC Corporation	$8,423,505	$167,554,194	$89,846,534	$77,707,660	$194,294,044	($1,636,453)	($1,323,785)	($1.60)
Investee：								
H.T.C. (B.V.I.) Corp.	3,667,514	2,986,387	1,060	2,985,327	9,018	8,943	45,495	0.04
Communication Global Certification Inc.	290,568	465,134	72,422	392,712	201,300	4,971	2,932	0.10
High Tech Computer Asia Pacific Pte. Ltd.	22,195,793	29,640,816	162,974	29,477,842	1,736,957	998,934	999,633	1.40
HTC Investment Corporation	300,000	303,656	100	303,556	3,259	3,151	2,866	0.10
HTC 1 Investment Corporation	295,000	298,754	100	298,654	3,318	3,211	2,994	0.10
HTC Investment One (BVI) Corporation	11,617,595	8,270,426	-	8,270,426	-	(2,121,393)	(2,115,979)	(5.51)
HTC Tech Computer Corp. (Suzhou)	598,680	742,345	779	741,566	108	(4,346)	9,008	-
High Tech Computer (H.K.) Limited	77,212	98,701	-	98,701	-	-	-	-
HTC (Australia and New Zealand) PTY LTD.	106,787	384,609	175,773	208,836	653,673	31,124	24,677	61.69
HTC Philippines Corporation	5,789	6,664	-	6,664	-	-	-	-
PT. High Tech Computer Indonesia	4,180	131,024	103,240	27,784	195,811	9,262	18,912	100.60
HTC (Thailand) Limited	22,812	59,086	17,655	41,431	100,821	4,800	3,525	0.35
HTC India Private Limited	2,424	120,865	74,697	46,168	704,522	33,719	11,042	22.08
HTC Malaysia Sdn. Bhd.	2,283	52,996	33,947	19,049	102,544	4,918	3,814	152.56
HTC Innovation Limited	1,418	15,139	55	15,084	71	(571)	(779)	(155.80)
HTC Communication Co., Ltd.	823,185	12,588,910	11,949,978	638,932	34,125,585	(672,146)	(333,150)	-
HTC HK, Limited	4,135,774	8,038,060	168,093	7,869,967	354,119	128,314	132,221	0.12
HTC Holding Cooperatief U.A.	15,693,071	19,534,595	1,997	19,532,598	1,031,174	1,030,227	1,044,242	-
HTC Communication Technologies (SH)	119,736	342,635	119,729	222,906	823,549	54,120	52,860	-
S3 Graphics Co, Ltd.	10,561,913	6,641,606	-	6,641,606	-	(1,115,102)	(1,115,102)	(2.89)
Yoda Co., Ltd.	20,000	36,463	16,015	20,448	52,923	535	465	-
HTC Corporation (Shanghai WGQ)	44,901	162,226	79,301	82,925	292,728	13,820	8,413	-
HTC Electronics (Shanghai) Co., Ltd.	3,978,498	11,069,437	3,493,415	7,576,022	11,318,260	110,652	114,502	-
HTC Netherlands B.V.	14,399,314	19,562,717	28,239	19,534,478	1,066,433	913,085	1,045,185	3.00
HTC EUROPE CO., LTD.	11,591,682	17,871,747	2,003,022	15,868,725	3,267,389	145,370	1,380,655	5.89
HTC BRASIL	25,180	31,413	6,992	24,421	14,046	712	705	0.35

(Continued)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
HTC Belgium BVBA/SPRL	784	164,829	33,766	131,063	73,487	3,490	357	19.25
HTC NIPPON Corporation	2,851	716,721	640,234	76,487	8,176,624	88,838	44,774	44,774.00
HTC FRANCE CORPORATION	268,226	108,215	277,500	(169,285)	131,680	770	(222,353)	(34.21)
HTC South Eastern Europe Limited Liability	186	6,124	-	6,124	(4,966)	(393)	(396)	(2,640.00)
HTC Nordic ApS.	443	74,829	35,161	39,668	75,246	4,625	3,548	44.35
HTC Italia SRL	413	18,859	15,754	3,105	37,637	993	430	-
HTC Germany GmbH.	1,032	114,972	41,244	73,728	195,544	12,928	8,914	356.56
HTC Iberia S.L.	124	38,971	14,300	24,671	49,783	1,837	1,301	433.67
HTC Poland sp. z o.o.	2,328	7,148	4,470	2,678	33,944	1,614	799	170.00
HTC Communication Canada, Ltd.	44,901	96,979	36,847	60,132	199,528	9,501	5,354	3.57
HTC Norway AS.	3,839	8,593	3,238	5,355	16,619	791	1,124	1.44
HTC Russia LLC.	11,489	8,619	478	8,141	-	(374)	(542)	-
HTC Communication Sweden AB	4,660	9,715	3,815	5,900	10,262	489	457	0.46
HTC Luxembourg S.a.r.l.	516	1,861,576	13,839	1,847,737	-	(210,490)	(219,145)	(17,531.60)
HTC Middle East FZ-LLC	28,524	76,618	42,456	34,162	229,159	5,345	4,605	1,315.71
HTC America Holding Inc.	6,978,394	7,509,220	572,957	6,936,263	21,137	(70,110)	(740,785)	(2.07)
ABAXIA SAS	3,343	86,577	24,548	62,029	222,187	11,606	7,532	9.34
HTC America Inc.	538,812	9,093,918	7,368,809	1,725,109	45,670,385	345,178	210,135	210,135.00
One & Company Design, Inc.	1,078	65,044	6,975	58,069	86,499	5,425	(10,219)	(170.32)
HTC America Innovation Inc.	89,802	581,214	285,235	295,979	1,102,397	65,170	2,587	2,587.00
HTC America Content Services, Inc.	152,663	49,419	224,977	(175,558)	5,007	(128,577)	(128,822)	(128,822.00)
Dashwire, Inc.	0.003	14,212	61,618	(47,406)	46,345	(57,964)	(58,018)	(580,180.00)
Inquisitive Minds, Inc.	0.03	32,733	20,311	12,422	92,703	9,016	5,309	53,090.00
HTC BLR	134	2,489	3,375	(886)	83,788	76	(486)	-

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

• Consolidated financial statements of HTC affiliated companies

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

• Affiliates report

There were no circumstances requiring preparation of an Affiliates Report.

2. Private Placement Securities in 2013 and as of the Date of This Annual Report:

None.

3. Status of HTC Common Shares and GDRS Acquired, Disposed of, and Held by Subsidiaries in 2013 as of the Date of This Annual Report:

None.

4. Any Events in 2013 as of the Date of This Annual Report: That Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan:

None.

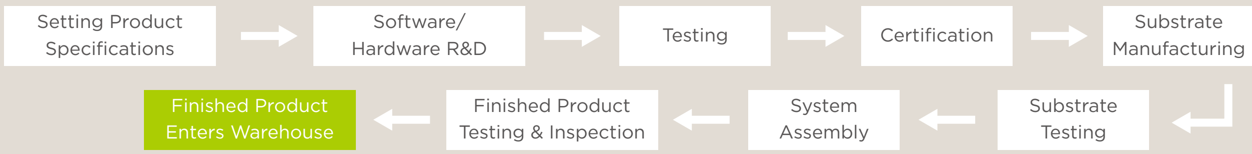
5. Other Necessary Supplement:

1. Key functionalities and manufacturing processes for primary product lines:

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

Communication speed has evolved from 3G to 4G (LTE Long Term Evdution) and the evolution toward wireless broadband and the increase of wireless bandwidth in order to satisfy customers' various needs through faster speed.

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



2. Environmental protection expenditures

HTC Corporation manufactures smartphone. With regard to production processes, airborne pollutants are generated only during soldering and solid wastes at various production stages. HTC's production processes do not generate wastewater.

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

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

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

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

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

a. Continue to strengthen the operations management on environmental protection equipment in order to comply with government rules and regulations and reduce accidents and abnormalities;
b. Strengthen waste collection and recycling efforts. Encourage resource reuse as part of the effort to achieve waste reduction targets;
c. Continue promoting ISO 14001 environmental management, ISO 14064-1 technical and administrative measures and ISO50001 energy management standard to maximize clean production benefits.
d. Major planned environmental expenditures over the next 2 years include:

Unit：NT$ thousands

Item \ Fiscal Year	Anticipated Equipment Purchases / Expenditures	Anticipated Benefits	Expenditures (estimated)
2014	1. Headquarter campus greenification 2. Energy efficient air conditioning equipment 3. System to supply recycled wastewater as landscaping & toilet flush water 4. Oil-water separator system construction 5. Water / power conservation promotion activities 6. Garbage reduction promotion activities 7. Energy efficient lighting system for new building 8. Drinking fountain power conservation function and usage control on holidays 9. Energy efficient lighting system 10. Campus ecological pond construction	1. Promote campus greenification and reduce energy consumption 2. Reduce energy consumption 3. Promote general waste reduction & recycling 4. Reduce environmental loading 5. Pantry, washroom, and bathroom efficient water saving utilities 6. Recycle, separate type of garbage 7. Reduce energy consumption 8. Reduce energy consumption on drinking fountains 9. Reduce energy consumption 10. Reduce energy consumption through campus greening efforts to reduce carbon dioxide emissions	131,550
2015	1. Energy efficient lighting system 2. Pantry, washroom, and bathroom efficient water saving utilities 3. Inverters for elevators & air compressors 4. Water / power conservation promotion activities 5. Energy efficient air conditioning equipment 6. System to supply recycled wastewater 7. Rainwater collection tank construction to recycle rainwater	1. Reduce energy consumption by using LED lighting system 2. Pantry, washroom, and bathroom efficient water saving utilities 3. Reduce energy consumption through the inverters for elevators & air compressors 4. Conserve water resources 5. Energy efficient air conditioning equipment 6. Conserve water resources 7. Conserve water resources by recycling rainwater for toilet flush water	11,250
2016	1. Energy efficient lighting system 2. Water conservation facilities 3. Energy efficient air conditioning equipment 4. Rnverters for elevators & air compressors 5. Waste water reprocess to provide for campus watering system and ecological pond 6. Water / power conservation promotion activities 7. Garbage reduction and recycling promotion activities 8. Campus greening efforts	1. Reduce energy consumption by using LED lighting system 2. Pantry, washroom, and bathroom efficient water saving utilities 3. Energy efficient air conditioning equipment 4. Reduce energy consumption through the inverters for elevators & air compressors 5. Promote general waste reduction & recycling 6. Conserve water resources 7. Reduce waste volumes by promoting garbage reduction and recycling 8. Reduce energy consumption through campus greenification	125,700

(3) Environmental protection and employee health & safety measures

Environmental protection:

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

Associated procedures include:

a. Track greenhouse gas emission to monitor type and amount of energy resources currently being used. Use data to draft action plan for energy conservation;
b. Recertification of greenhouse gas records conducted by licensed, independent certification agency annually (certificate issued);
c. Voluntarily release annual greenhouse gas emissions data to the public through international non-profit organizations, CDP.

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

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

(4) Green product research and development

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

3. Labor relations management

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

(1) Employee recruitment

Hiring and retaining exceptional employees is a key objective of HTC's human resources strategy. We are an equal opportunity employer and recognize the practical benefits that employee diversity brings to HTC's corporate culture and to our innovative spirits. HTC hires new employees through open selection procedures, with candidates offered positions based on merit. We permit no discrimination based on ethnicity, skin color, social status, language, religion, political affiliation, country / region of origin, gender, sexual orientation, marital status, appearance, disability, professional association membership or other similar considerations not relevant to job performance. HTC works through cooperative programs with universities, internship programs and summer work programs to provide work opportunities to a large number of students each year. In addition, we actively restructure our work environment to provide more job opportunities for disability so they can also have the great opportunity to develop their talents.

(2) Employee development

HTC values the development and cultivation of our employees. In order to fulfill the commitment to grow with our employees, HTC constructs systematic learning development blueprint that provides a comprehensive curricula covering professional, managerial and personal development as well as language courses and training for new employees. These programs help staff acclimate quickly to HTC's corporate culture and acquire essential knowledge and skills. We've introduced e-Learning and Mobile Learning platforms to make learning more convenient and flexible. Further, HTC sponsors regular seminars and workshops as part of its development initiatives. Globally recognized experts share insights into market trends, the latest technologies and technology trends, combining with cultural and artistic sensibilities to lead HTC staff to face global technology development and challenges confidently.

Personnel talent is HTC's most precious assets. It is also HTC's long-term commitment to every employee. In 2013, total training related expenditure were NT$16 million and training hours were 242,943 hours.

(3) Employee benefits and employee satisfaction

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

Comprehensive employee benefits

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

Open and responsive lines of communication

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

Regular activities and events

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

Employee awards

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

(4) Employee retention

Specialist retention plan: Incentives are offered to employees with special and critical skills to keep them with the company and ensure they benefit from the results of their efforts.
Employee awards: Awards are presented to global best-performance teams, individuals, and headquarter and arrange the symposia with management team.
Long service awards: Awards are presented at a company-wide ceremony that recognize employees who have provided with 5-year, 10-year and 15-year of services.
Internal transfer assistance: In order to help enhance employees' professional experience and career planning, HTC provides assistance to facilitate employee transfers within the company.

(5) Compensation and retirement benefits

HTC employees earn market-competitive salaries that take into consideration academic background, work experience, seniority and current professional responsibilities / position level. HTC is a business that values its people. Long term incentive is allocated to the talents who perform very best performance and who are fundamental to our future growth and long term success. Additionally, the amount of annual employee performance bonuses is proposed by the president and approved by the board of directors based on current year business performance. Performance bonus is allocated based on work performance and relative level of contribution in order to motivate employees effectively.

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

(6) Labor negotiations and measures to protect employee rights

HTC is committed to fostering an atmosphere of trust in its labor relations and places great importance on internal communications. Labor relations meetings are convened once every two months (at least 6 regular meetings per year), with labor represented by seven elected employee representatives. Meeting minutes are kept to ensure follow-on action and track results. HTC further offers employees various channels through which to submit opinions, suggestions and complaints, which may be delivered via a telephone hotline, e-mail address or physical mail as well as made known through HTC's regular employee opinion surveys. During the most recent fiscal year and as of the printing date of this annual report, labor relations management have been harmonious with no losses resulting from labor-management conflicts; and no loss of this type is expected in the future.

CHAPTER 8

FINANCIAL INFORMATION

FINANCIAL INFORMATION

1. Abbreviated Balance Sheets for the Past Five Fiscal Years

1. Abbreviated Balance Sheets - IFRSs

Unit：NT$ thousands

Item		Year 2013	2012	2011	2010	2009
Current Assets		86,792,110	120,322,646	178,751,062	Abbreviated balance sheet was based on ROC GAAP	
Properties		19,773,608	19,726,836	15,318,600		
Intangible Assets		1,650,891	1,717,150	2,241,541		
Other Assets		59,337,585	55,213,207	50,810,264		
Total Assets		167,554,194	196,979,839	247,121,467		
Current Liabilities	Before Appropriation	89,731,340	116,556,611	145,631,489		
	After Appropriation	*	118,219,066	178,880,574		
Non-current Liabilities		115,194	150,534	188,097		
Total Liabilities	Before Appropriation	89,846,534	116,707,145	145,819,586		
	After Appropriation	*	118,369,600	179,068,671		
Capital Stock		8,423,505	8,520,521	8,520,521		
Capital Surplus		15,360,307	16,601,557	16,601,557		
Retained Earnings	Before Appropriation	66,286,308	70,102,031	86,542,008		
	After Appropriation	*	68,439,576	53,292,923		
Other Equity		557,698	(885,925)	2,939		
Treasury Stock		(12,920,158)	(14,065,490)	(10,365,144)		
Total Stockholders' Equity	Before Appropriation	77,707,660	80,272,694	101,301,881		
	After Appropriation	*	78,610,239	68,052,796		

* : Subject to change after shareholders' meeting resolution

2. Abbreviated Balance Sheets - ROC GAAP

Unit：NT$ thousands

Item		Year 2013	2012	2011	2010	2009
Current Assets		Abbreviated balance sheet was based on IFRSs			156,875,067	101,470,633
Long-term Investments					10,708,420	6,506,194
Properties					10,941,230	8,314,177
Intangible Assets					208,581	-
Other Assets					5,317,155	3,330,938
Total Assets					184,050,453	119,621,942
Current Liabilities	Before Appropriation				109,335,331	53,980,282
	After Appropriation				139,226,420	74,102,614
Long-term Liabilities					-	-
Other Liabilities					628	1,210
Total Liabilities	Before Appropriation				109,335,959	53,981,492
	After Appropriation				139,227,048	74,103,824
Capital Stock					8,176,532	7,889,358
Capital Surplus					10,820,744	9,099,923
Retained Earnings	Before Appropriation				63,150,566	48,637,773
	After Appropriation				32,855,543	28,128,473
Unrealized Loss on Financial Instruments					(885)	(1,658)
Cumulative Translation Adjustments					(579,849)	15,088
Net Loss Not Recognized As Pension Cost					(121)	(34)
Treasury Stock					(6,852,493)	-
Total Stockholders' Equity	Before Appropriation				74,714,494	65,640,450
	After Appropriation				44,823,405	45,518,118

3. Abbreviated Consolidated Balance Sheets - IFRSs

Unit：NT$ thousands

Item		Year					As of 2014.03.31
		2013	2012	2011	2010	2009	
Current Assets		111,507,281	136,132,425	190,682,395			103,908,285
Properties		25,561,399	25,990,766	21,715,633			24,910,603
Intangible Assets		8,664,066	11,683,170	22,767,479			8,459,667
Other Assets		26,896,441	33,442,631	20,946,323			28,197,798
Total Assets		172,629,187	207,248,992	256,111,830			165,476,353
Current Liabilities	Before Appropriation	94,513,990	126,268,363	153,434,018			88,583,364
	After Appropriation	*	127,930,818	186,683,103			*
Non-Current Liabilities		407,537	707,935	383,207			423,287
Total Liabilities	Before Appropriation	94,921,527	126,976,298	153,817,225			89,006,651
	After Appropriation	*	128,638,753	187,066,310	Abbreviated consolidated balance sheet was based on ROC GAAP		*
Capital Stock		8,423,505	8,520,521	8,520,521			8,403,521
Capital Surplus		15,360,307	16,601,557	16,601,557			14,742,307
Retained Earnings	Before Appropriation	66,286,308	70,102,031	86,542,008			63,498,359
	After Appropriation	*	68,439,576	53,292,923			*
Other Equity		557,698	(885,925)	2,939			1,152,333
Treasury Stock		(12,920,158)	(14,065,490)	(10,365,144)			(11,326,818)
Non-Controlling Interest		-	-	992,724			-
Total Stockholders' Equity	Before Appropriation	77,707,660	80,272,694	102,294,605			76,469,702
	After Appropriation	*	78,610,239	69,045,520			*

*：Subject to change after shareholders' meeting resolution

4. Abbreviated Consolidated Balance Sheets – ROC GAAP

Unit：NT$ thousands

Item		Year				
		2013	2012	2011	2010	2009
Current Assets					168,606,486	104,867,841
Long-term Investments					1,232,145	810,485
Properties					14,024,329	9,899,808
Intangible Assets					935,650	240,482
Other Assets					5,583,134	3,610,401
Total Assets					190,381,744	119,429,017
Current Liabilities	Before Appropriation				115,641,103	53,728,775
	After Appropriation				145,532,192	73,851,107
Long-term Liabilities					12,188	24,375
Other Liabilities					13,959	1,210
Total Liabilities	Before Appropriation				115,667,250	53,754,360
	After Appropriation	Abbreviated consolidated balance sheet was based on IFRSs			145,558,339	73,876,692
Capital Stock					8,176,532	7,889,358
Capital Surplus					10,820,744	9,099,923
Retained Earnings	Before Appropriation				63,150,566	48,637,773
	After Appropriation				32,855,543	28,128,473
Unrealized Loss on Financial Instruments					(885)	(1,658)
Cumulative Translation Adjustments					(579,849)	15,088
Net Loss Not Recognized As Pension Cost					(121)	(34)
Treasury					(6,852,493)	-
Equity Attribute To The Stockholders Of The Parent					74,714,494	65,640,450
Minority Interest					-	34,207
Total Stockholders' Equity	Before Appropriation				74,714,494	65,674,657
	After Appropriation				44,823,405	45,552,325

2. Abbreviated Income Statements for the Past Five Fiscal Years

1. Abbreviated Income Statement – IFRSs

Unit：NT$ thousands

Item	Year 2013	2012	2011	2010	2009
Revenues	194,294,044	270,701,687	Abbreviated income statement was based on ROC GAAP		
Gross Profit	33,969,488	56,994,793			
Operating Loss	(1,636,453)	14,770,387			
Non-operating Income and Expenses	351,246	2,162,323			
Net Income (Loss) Before Tax	(1,285,207)	16,932,710			
Net Income (Loss) from Continuing Operations	(1,323,785)	16,813,575			
Non-Continuing Operations Loss	-	-			
Net (Loss) Income	(1,323,785)	16,813,575			
Other Comprehensive Income For The Year –Net Of Income Tax	1,428,310	(893,331)			
Total Comprehensive Income For The Year	104,525	15,920,244			
Basic Earnings (Loss) Per Share	(1.60)	20.21			

2. Abbreviated Income Statement – ROC GAAP

Unit：NT$ thousands

Item	Year 2013	2012	2011	2010	2009
Revenues	Abbreviated income statement was based on IFRSs		455,079,186	275,046,954	144,880,715
Gross Profit			119,754,046	79,556,972	45,862,483
Operating Income			64,860,542	42,295,343	24,174,994
Non-operating Income and Gains			5,060,293	2,536,080	1,623,362
Non-operating Expenses and Losses			71,164	340,114	585,892
Income from Continuing Operation before Income Tax			69,849,671	44,491,309	25,212,464
Income from Continuing Operations			61,975,796	39,533,600	22,608,902
Income (Loss) from Discontinued Operations			-	-	-
Income (Loss) from Extraordinary Items			-	-	-
Cumulative Effect of Changes in Accounting Principle			-	-	-
Net Income			61,975,796	39,533,600	22,608,902
Basic Earnings Per Share			73.32	46.18	26.04

3. Abbreviated Consolidated Income Statement – IFRSs

Unit：NT$ thousands

Item	Year 2013	2012	2011	2010	2009	As of 2014.03.31
Revenue	203,402,648	289,020,175	Abbreviated consolidated income statement was based on ROC GAAP			33,120,843
Gross Profit	42,270,753	72,930,849				6,963,665
Operating Income (Loss)	(3,970,522)	18,827,314				(2,047,691)
Non-operating Income and Expenses	3,774,878	630,751				166,428
Net Income (Loss) Before Tax	(195,644)	19,458,065				(1,881,263)
Net Income (Loss) from Continuing Operations	(1,323,785)	17,621,793				(1,881,263)
Non-Continuing Operations Loss	-	-				-
Net Income (Loss)	(1,323,785)	17,621,793				(1,881,263)
Other Comprehensive Income and Loss for the Period, Net of Income Tax	1,428,310	(893,331)				594,635
Total Comprehensive Income for the Period	104,525	16,728,462				(1,286,628)
Allocations of Profit or Loss for the Period Attributable to: Owners of the Parent	(1,323,785)	16,813,575				(1,881,263)
Allocations of Profit or Loss for the Period Attributable to: Non-controlling Interest	-	808,218				-
Allocations of Total Comprehensive Income for the Period Attributable to: Owners of the Parent	104,525	15,920,244				(1,286,628)
Allocations of Total Comprehensive Income for the Period Attributable to: Non-controlling Interest	-	808,218				-
Basic Earnings (Loss) Per Share	(1.60)	20.21				(2.28)

4. Abbreviated Consolidated Income Statement – ROC GAAP

Unit：NT$ thousands

Item	Year 2013	2012	2011	2010	2009
Revenues	Abbreviated consolidated income statement was based on IFRSs		465,794,773	278,761,244	144,492,518
Gross Profit			131,797,527	83,868,739	46,162,981
Operating Income			68,787,767	44,132,581	24,622,907
Non-operating Income and Gains			2,783,264	1,142,944	1,420,086
Non-operating Expenses and Losses			147,344	311,137	646,581
Income from Continuing Operations Before Income Tax			71,423,687	44,964,388	25,396,412
Income from Continuing Operations After Tax			62,299,048	39,514,844	22,614,413
Income (Loss) from Discontinued Operations			-	-	-
Income (Loss) from Extraordinary Items			-	-	-
Cumulative Effect of Changes in Accounting Principle			-	-	-
Net Income			62,299,048	39,514,844	22,614,413
Net Income Attribute to Shareholders of the Parent			61,975,796	39,533,600	22,608,902
Basic Earnings Per Share			73.32	46.18	26.04

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

Year	CPA Firm	Certified Public Accountant	Auditor's Opinion
2009	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2010	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2011	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2012	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2013	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Wen-Ya Hsu	Unqualified Opinion

3. Financial Analysis for the Past Five Fiscal Years

(1) Financial Analysis - IFRSs

Item			Year 2013	2012	2011	2010	2009
Capital Structure Analysis	Debt Ratio (%)		54	59	Financial analysis was based on ROC GAAP		
	Long-term Fund to Fixed Assets Ratio (%)		393	407			
Liquidity Analysis	Current Ratio (%)		97	103			
	Quick Ratio (%)		72	82			
	Debt Services Coverage Ratio (%)		(195)	52,916			
Operating Performance Analysis	Average Collection Turnover (Times)		5.43	5.02			
	Days Sales Outstanding		67	73			
	Average Inventory Turnover (Times)		7.12	7.85			
	Average Payment Turnover (Times)		2.62	2.84			
	Average Inventory Turnover Days		51	46			
	Fixed Assets Turnover (Times)		9.83	13.72			
	Total Assets Turnover (Times)		1.16	1.37			
Profitability Analysis	Return on Total Assets (%)		(0.72)	7.57			
	Return on Equity (%)		(1.68)	18.52			
	Paid-in Capital Ratio (%)	Operating Income	(19.43)	173.35			
		Pre-tax Income	(15.26)	198.73			
	Net Margin (%)		(0.68)	6.21			
	Basic (Loss) Earnings Per Share (NT$)		(1.60)	20.21			
Cash Flow	Cash Flow Ratio (%)		(14.76)	19.50			
	Cash Flow Adequacy Ratio (%)		113.13	128.67			
	Cash Flow Reinvestment Ratio (%)		(17.28)	(12.04)			
Leverage	Operating Leverage		(5.87)	2.37			
	Financial Leverage		1	1			

1. Capital Structure & Liquidity Analyses

As of year-end 2013, our debt ratio stood at 54% lower than last year level and current and quick ratios were both lower at 97% and 72%, respectively. This situation reflected declines in revenue while distributing dividends which caused net cash outflow to lower current and quick ratio compare to previous year.

2. Operating Performance Analysis

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

3. Profitability Analysis

On the back of declines in revenue, profitability decreased compared to the previous year given by intensified market competition, price competition and sustainability for branding activities. Net margin declined to -0.68% and EPS was NT$-1.6 in 2013.

4. Cash Flow Analysis

Due to the global competition in 2013, HTC faced a decline in revenue and turned net cash flows from operating activities to net cash outflows, which brought net cash flow ratio to -15% and the cash flow adequacy ratio to 113%. Cash flow reinvestment reduced to -17%.

(2) Financial Analysis – ROC GAAP

Item			Year 2013	2012	2011	2010	2009
Capital Structure Analysis	Debt Ratio (%)		Financial analysis was based on IFRSs		59	59	45
	Long-term Fund to Fixed Assets Ratio (%)				658	683	790
Liquidity Analysis	Current Ratio (%)				123	144	188
	Quick Ratio (%)				100	120	171
	Debt Services Coverage Ratio (%)				6,806	967,203	192,463
Operating Performance Analysis	Average Collection Turnover (Times)				6.95	5.92	4.92
	Days Sales Outstanding				53	62	74
	Average Inventory Turnover (Times)				12.11	11.77	11.71
	Average Payment Turnover (Times)				4.85	4.59	3.72
	Average Inventory Turnover Days				30	31	31
	Fixed Assets Turnover (Times)				29.51	25.14	17.43
	Total Assets Turnover (Times)				1.83	1.49	1.21
Profitability Analysis	Return on Total Assets (%)				29	26	22
	Return on Equity (%)				70	56	37
	Paid-in Capital Ratio (%)	Operating Income			761	517	306
		Pre-tax Income			820	544	320
	Net Margin (%)				14	14	16
	Basic Earnings Per Share (NT$)				73.32	46.18	26.04
Cash Flow	Cash Flow Ratio (%)				58	37	51
	Cash Flow Adequacy Ratio (%)				163	157	201
	Cash Flow Reinvestment Ratio (%)				52	26	11
Leverage	Operating Leverage				1.35	1.43	1.54
	Financial Leverage				1	1	1

(3) Consolidated Financial Analysis - IFRSs

Item			Year 2013	2012	2011	2010	2009	As of 2014.03.31
Capital Structure Analysis	Debt Ratio (%)		55	61	Financial analysis was based on ROC GAAP			54
	Long-term Fund to Fixed Assets Ratio (%)		304	309				307
Liquidity Analysis	Current Ratio (%)		118	108				117
	Quick Ratio (%)		87	85				81
	Debt Services Coverage Ratio (%)		(22)	11,347				(386)
Operating Performance Analysis	Average Collection Turnover (Times)		5.83	5.27				5.06
	Days Sales Outstanding		63	69				72
	Average Inventory Turnover (Times)		5.81	6.96				3.81
	Average Payment Turnover (Times)		2.69	2.84				2.34
	Average Inventory Turnover Days		63	52				96
	Fixed Assets Turnover (Times)		7.96	11.12				5.32
	Total Assets Turnover (Times)		1.18	1.39				0.80
Profitability Analysis	Return on Total Assets (%)		(0.69)	7.61				(1.11)
	Return on Equity (%)		(1.68)	19.30				(2.44)
	Paid-in Capital Ratio (%)	Operating Income	(47.14)	220.96				(24.37)
		Pre-tax Income	(2.32)	228.37				(22.39)
	Net Margin (%)		(0.65)	6.10				(5.68)
	Basic Earnings Per Share (NT$)		(1.60)	20.21				(2.28)
Cash Flow	Cash Flow Ratio (%)		(17.17)	18.69				(13.01)
	Cash Flow Adequacy Ratio (%)		109.71	126.39				96.82
	Cash Flow Reinvestment Ratio (%)		(19.78)	(10.66)				(12.81)
Leverage	Operating Leverage		(5.87)	2.37				(2.01)
	Financial Leverage		1	1				1

1. Capital Structure & Liquidity Analyses

As of year-end 2013, our debt ratio stood at 55%, slightly lower than the 2012 level and current and quick ratios were both lower at 118% and 87%, respectively. This situation reflected decreased in expenses due to operating condition which reduces more range in current liabilities than the range in current assets and quick assets.

2. Operating Performance Analysis

Fixed assets turnover, total assets turnover, collection turnover, average inventory turnover, and average payment turnover were all lowered compare to previous year due to decline in revenue. The average collection turnover increased compared to last year because the decline percentage in collection was greater than the decline percentage in operating income.

3. Profitability Analysis

On the back of declines in revenue, profitability decreased compare to previous year given by intensified market competition. Return on total assets and return on equity turned negative. Net margin was -0.65% and basic earnings per share came to NT$-1.6 per share.

4. Cash Flow Analysis

HTC had declines in revenue due to intense global competition which led operating net cash inflow to net cash outflow. It led the net cash flow ratio declined to -17%, while cash flow adequacy ratio was down to 110% and cash flow reinvestment ratio was down to -20%.

(4) Consolidated Financial Analysis – ROC GAAP

Item (Note 1)			Year 2013	2012	2011	2010	2009
Capital Structure Analysis	Debt Ratio (%)				60	61	45
	Long-term Fund to Fixed Assets Ratio (%)				476	533	664
Liquidity Analysis	Current Ratio (%)				126	146	195
	Quick Ratio (%)				102	120	176
	Debt Services Coverage Ratio (%)				2,307	12,624	11,683
Operating Performance Analysis	Average Collection Turnover (Times)				7.23	6.14	6.03
	Days Sales Outstanding				50	59	61
	Average Inventory Turnover (Times)				10.55	10.06	11.46
	Average Payment Turnover (Times)				4.66	4.35	4.03
	Average Inventory Turnover Days				35	36	32
	Fixed Assets Turnover (Times)				21.65	19.88	14.6
	Total Assets Turnover (Times)		Financial analysis was based on IFRSs		1.82	1.46	1.21
Profitability Analysis	Return on Total Assets (%)				28	26	21
	Return on Equity (%)				70	56	37
	Paid-in Capital Ratio (%)	Operating Income			807	540	312
		Pre-tax Income			838	550	322
	Net Margin (%)				13	14	16
	Basic Earnings Per Share (元)				73.32	46.18	26.04
Cash Flow	Cash Flow Ratio (%)				58	40	52
	Cash Flow Adequacy Ratio (%)				158	150	192
	Cash Flow Reinvestment Ratio (%)				53	32	11
Leverage	Operating Leverage				1.35	1.43	1.54
	Financial Leverage				1	1	1

Note 1: Glossary

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

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

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

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

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

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

3. 2013 Supervisor's Report

HTC CORPORATION

Supervisors Audit Report

The Board of Directors has prepared the Company's 2013 Financial Statements. HTC Corporation's Financial Statements have been audited and certified by Yang, Ming-Hsien, CPA, and Hsu Wen-Ya, CPA, of Deloitte & Touche and an audit report relating to the Financial Statements has been issued. The Financial Statements has been reviewed and considered to be complied with relevant rules by the undersigned, the supervisor of HTC Corporation. According to Article 219 of the Company Law, I hereby submit this report.

HTC CORPORATION
Supervisor:
Huang-Chieh Chu

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

March 28, 2013

3. 2013 Supervisor's Report

HTC CORPORATION

Supervisors Audit Report

The Board of Directors has prepared the Company's 2013 Business Report and Deficit Compensation Proposal. The Business Report and Deficit Compensation Proposal have been reviewed and considered to be complied with relevant rules by the undersigned, the supervisor of HTC Corporation. According to Article 219 of the Company Law, I hereby submit this report.

HTC CORPORATION
Supervisor:
Huang-Chieh Chu

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

May 6, 2014

4. Independent Auditors' Report

The Board of Directors and Stockholders

HTC Corporation

We have audited the accompanying balance sheets of HTC Corporation (the "Company") as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013, December 31, 2012 and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

February 28, 2014

Notice to Readers

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

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

HTC CORPORATION

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$33,034,504	20	$42,545,929	22	$53,397,570	22
Financial assets at fair value through profit or loss - current (Notes 7 and 32)	162,297	-	6,950	-	256,868	-
Available-for-sale financial assets - current (Notes 8 and 32)	-	-	-	-	736,031	-
Held-to-maturity financial assets - current (Notes 9 and 32)	-	-	101,459	-	-	-
Derivative financial assets for hedging - current (Notes 10 and 32)	-	-	204,519	-	-	-
Note and trade receivables, net (Note 13)	13,966,622	8	19,743,763	10	32,039,776	13
Trade receivables - related parties, net (Notes 13 and 33)	13,203,577	8	19,468,130	10	32,977,269	13
Other receivables (Note 13)	1,856,060	1	1,300,399	1	1,615,044	1
Other receivables - related parties (Notes 13 and 33)	336	-	6,633,724	3	79,077	-
Current tax assets (Note 26)	24,192	-	-	-	-	-
Inventories (Note 14)	18,463,656	11	20,521,967	10	25,389,320	10
Prepayments (Note 15)	3,596,806	2	4,154,949	2	6,473,372	3
Other current financial assets (Notes 6, 12 and 34)	2,359,041	2	5,606,720	3	25,538,650	10
Other current assets	125,019	-	34,137	-	248,085	-
Total current assets	86,792,110	52	120,322,646	61	178,751,062	72
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 8 and 32)	239	-	197	-	279	-
Held-to-maturity financial assets - non-current (Notes 9 and 32)	-	-	-	-	204,597	-
Financial assets measured at cost - non-current (Notes 11 and 32)	515,861	-	515,861	-	515,861	-
Investments accounted for using equity method (Notes 16, 29 and 30)	42,130,349	25	39,781,249	20	35,904,924	15
Property, plant and equipment (Notes 17 and 33)	19,773,608	12	19,726,836	10	15,318,600	6
Intangible assets (Note 18)	1,650,891	1	1,717,150	1	2,241,541	1
Deferred tax assets (Note 26)	6,475,936	4	6,545,718	4	5,359,291	2
Refundable deposits (Note 32)	75,081	-	84,947	-	78,894	-
Prepaid pension cost - non-current (Note 22)	125,894	-	119,522	-	101,026	-
Other non-current assets (Note 15)	10,014,225	6	8,165,713	4	8,645,392	4
Total non-current assets	80,762,084	48	76,657,193	39	68,370,405	28
TOTAL	$167,554,194	100	$196,979,839	100	$247,121,467	100

(Continued)

LIABILITIES AND EQUITY	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
CURRENT LIABILITIES						
Note and trade payables (Note 19)	$42,788,723	26	$71,227,584	36	$72,855,374	30
Trade payable - related parties (Notes 19 and 33)	5,622,019	4	2,902,985	1	3,639,231	1
Other payables (Notes 20 and 33)	33,562,853	20	32,211,263	16	43,521,453	18
Current tax liabilities (Note 26)	303	-	1,424,006	1	9,653,090	4
Provisions - current (Note 21)	7,224,637	4	7,603,717	4	14,808,145	6
Other current liabilities (Note 20)	532,805	-	1,187,056	1	1,154,196	-
Total current liabilities	89,731,340	54	116,556,611	59	145,631,489	59
NON-CURRENT LIABILITIES						
Deferred tax liabilities (Note 26)	114,034	-	150,534	-	187,469	-
Guarantee deposits received (Note 32)	1,160	-	-	-	628	-
Total non-current liabilities	115,194	-	150,534	-	188,097	-
Total liabilities	89,846,534	54	116,707,145	59	145,819,586	59
EQUITY (Note 23)						
Share capital - common stock	8,423,505	5	8,520,521	4	8,520,521	3
Capital surplus	15,360,307	9	16,601,557	8	16,601,557	7
Retained earnings						
Legal reserve	18,149,350	11	16,471,254	9	10,273,674	4
Special reserve	854,138	1	-	-	580,856	-
Accumulated earnings	47,282,820	28	53,630,777	27	75,687,478	31
Total retained earnings	66,286,308	40	70,102,031	36	86,542,008	35
Other equity	557,698	-	(885,925)	-	2,939	-
Treasury shares	(12,920,158)	(8)	(14,065,490)	(7)	(10,365,144)	(4)
Total equity	77,707,660	46	80,272,694	41	101,301,881	41
TOTAL	$167,554,194	100	$196,979,839	100	$247,121,467	100

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

(Concluded)

HTC CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
REVENUES (Notes 24 and 33)	$194,294,044	100	$270,701,687	100
COST OF REVENUES (Notes 14, 25 and 33)	160,324,556	82	213,706,894	79
GROSS PROFIT	33,969,488	18	56,994,793	21
UNREALIZED GAINS	(1,611,132)	(1)	(2,354,363)	(1)
REALIZED GAINS	2,354,363	1	1,151,531	-
REALIZED GROSS PROFIT	34,712,719	18	55,791,961	20
OPERATING EXPENSES (Notes 25 and 33)				
Selling and marketing	18,767,921	10	21,716,367	8
General and administrative	6,149,762	3	5,521,638	2
Research and development	11,431,489	6	13,783,569	5
Total operating expenses	36,349,172	19	41,021,574	15
OPERATING (LOSS) PROFIT	(1,636,453)	(1)	14,770,387	5
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 25)	675,659	-	964,499	1
Other gains and losses (Note 25)	758,009	-	580,421	-
Finance costs	(6,550)	-	(320)	-
Share of the profit or loss of subsidiaries, associates and joint ventures (Note 16)	(1,075,872)	-	617,723	-
Total non-operating income and expenses	351,246	-	2,162,323	1

(Continued)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
(LOSS) PROFIT BEFORE INCOME TAX	$(1,285,207)	(1)	$16,932,710	6
INCOME TAX (Note 26)	(38,578)	-	(119,135)	-
(LOSS) PROFIT FOR THE YEAR	(1,323,785)	(1)	16,813,575	6
OTHER COMPREHENSIVE INCOME AND LOSS				
Exchange differences on translating foreign operations (Note 23)	1,649,412	1	(1,089,693)	-
Unrealized gain (loss) on available-for-sale financial assets (Note 23)	42	-	(4,713)	-
Cash flow hedge (Notes 10 and 23)	(194,052)	-	194,052	-
Actuarial gain and loss arising from defined benefit plans (Note 22)	(16,976)	-	(5,310)	-
Share of the other comprehensive income of subsidiaries, associates and joint ventures	(11,887)	-	11,430	-
Income tax relating to the components of other comprehensive income (Notes 22 and 26)	1,771	-	903	-
Other comprehensive income and loss for the year, net of income tax	1,428,310	1	(893,331)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$104,525	-	$15,920,244	6
(LOSS) EARNINGS PER SHARE (Note 27)				
Basic	$(1.60)		$20.21	
Diluted	$(1.60)		$20.12	

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

(Concluded)

HTC CORPORATION

STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars)

			Retained Earnings			Other Equity				
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Accumulated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedge	Treasury Shares	Total Equity
BALANCE, JANUARY 1, 2012	$8,520,521	$16,601,557	$10,273,674	$580,856	$75,687,478	$-	$2,939	$ -	$(10,365,144)	$ 101,301,881
Appropriation of 2011 earnings										
Legal reserve	-	-	6,197,580	-	(6,197,580)	-	-	-	-	-
Special reserve reversed	-	-	-	(580,856)	580,856	-	-	-	-	-
Cash dividends	-	-	-	-	(33,249,085)	-	-	-	-	(33,249,085)
Profit for the year ended December 31, 2012	-	-	-	-	16,813,575	-	-	-	-	16,813,575
Other comprehensive income and loss for the year ended December 31, 2012	-	-	-	-	(4,467)	(1,089,693)	6,777	194,052	-	(893,331)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(3,700,346)	(3,700,346)
BALANCE, DECEMBER 31, 2012	8,520,521	16,601,557	16,471,254	-	53,630,777	(1,089,693)	9,716	194,052	(14,065,490)	80,272,694
Appropriation of 2012 earnings										
Legal reserve	-	-	1,678,096	-	(1,678,096)	-	-	-	-	-
Special reserve	-	-	-	854,138	(854,138)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,662,455)	-	-	-	-	(1,662,455)
Loss for the year ended December 31, 2013	-	-	-	-	(1,323,785)	-	-	-	-	(1,323,785)
Other comprehensive income and loss for the year ended December 31, 2013	-	-	-	-	(15,313)	1,649,412	(11,737)	(194,052)	-	1,428,310
Purchase of treasury shares	-	-	-	-	-	-	-	-	(1,033,846)	(1,033,846)
Retirement of treasury stock	(97,016)	(1,267,992)	-	-	(814,170)	-	-	-	2,179,178	-
Share-based payments	-	26,742	-	-	-	-	-	-	-	26,742
BALANCE, DECEMBER 31, 2013	$8,423,505	$15,360,307	$18,149,350	$854,138	$47,282,820	$559,719	$(2,021)	$-	$(12,920,158)	$77,707,660

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

HTC CORPORATION

STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) profit before income tax	$(1,285,207)	$16,932,710
Adjustments for:		
Depreciation	1,602,946	1,292,949
Amortization	651,632	524,391
Impairment loss recognized on trade receivables	991,821	505,078
Finance costs	6,550	320
Interest income	(426,679)	(504,794)
Compensation cost of employee share options	23,443	-
Share of the profit or loss of associates and joint ventures	1,075,872	(617,723)
Transfer of property, plant and equipment to expenses	1,581	5,912
Gain on disposal of intangible assets	(110,602)	-
Gain on sale of available-for-sale financial assets	-	(7,695)
Impairment losses on non-financial assets	550,224	1,256,571
Unrealized gain on sales	1,611,132	2,354,363
Realized gain on sales	(2,354,363)	(1,151,531)
Ineffective portion of cash flow hedges	10,467	(10,467)
Changes in operating assets and liabilities		
(Increase) decrease in financial instruments held for trading	(155,347)	249,918
Decrease in note and trade receivables	4,785,320	11,790,935
Decrease in trade receivables - related parties	6,264,553	13,509,139
(Increase) decrease in other receivables	(555,055)	301,456
Decrease in other receivables - related parties	33,295	45,446
Decrease in inventories	1,619,172	3,655,799
Decrease (increase) in prepayments	48,433	(585,542)
(Increase) decrease in other current assets	(90,882)	213,948
(Increase) decrease in other non-current assets	(1,933,827)	560,878
(Decrease) increase in note and trade payables	(25,938,861)	1,276,175
Increase (decrease) in trade payable - related parties	2,719,034	(736,246)
Increase (decrease) in other payables	2,129,687	(11,861,840)
Decrease in provisions	(2,879,080)	(7,204,428)
(Decrease) increase in other current liabilities	(654,251)	32,860

(Continued)

	For the Years Ended December 31	
	2013	2012
Cash (used in) generated from operations	(12,258,992)	31,828,582
Interest received	473,600	475,053
Interest paid	(6,550)	(320)
Income tax paid	(1,451,420)	(9,570,678)
Net cash (used in) generated from operating activities	(13,243,362)	22,732,637
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	-	739,095
Recovery of the principal amount of held-to-maturity investments	100,000	100,000
Net cash inflow on disposal of subsidiaries	22	-
Payments for property, plant and equipment	(2,367,429)	(5,260,452)
Increase in refundable deposits	-	(6,053)
Decrease in refundable deposits	9,866	-
Increase in other receivables - related parties	-	(6,554,025)
Decrease in other receivables - related parties	6,554,025	-
Payments for intangible assets	(193,526)	-
Proceeds from disposal of intangible assets	117,380	-
Decrease in other current financial assets	3,247,679	19,931,930
Dividend received	7,655	1,744
Net cash generated from investing activities	7,475,672	8,952,239
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for treasury shares	(1,033,846)	(3,700,346)
Increase in guarantee deposits received	1,160	-
Decrease in guarantee deposits received	-	(628)
Net cash outflow on acquisition of subsidiaries	(1,048,594)	(5,586,458)
Dividends paid to owners of the Company	(1,662,455)	(33,249,085)
Net cash used in financing activities	(3,743,735)	(42,536,517)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,511,425)	(10,851,641)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	42,545,929	53,397,570
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$33,034,504	$42,545,929

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

HTC CORPORATION

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

In March 2002, the Company had its stock listed on the Taiwan Stock Exchange. On November 19, 2003, the Company listed some of its shares of stock on the Luxembourg Stock Exchange in the form of global depositary receipts.

The functional currency of the Company is New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the board of directors and authorized for issue on February 28, 2014.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

a. New, amended and revised standards and interpretations (the "New IFRSs") in issue but not yet effective

The Company have not applied the International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations, and Standing Interpretations that have been issued by the IASB. On January 28, 2014, the Financial Supervisory Commission (FSC) announced the framework for the adoption of updated IFRSs version in the ROC. Under this framework, starting January 1, 2015, the previous version of IFRSs endorsed by the FSC (the 2010 IFRSs version) currently applied by companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market will be replaced by the updated IFRSs without IFRS 9 (the 2013 IFRSs version). However, as of the date that the parent company only financial statements were authorized for issue, the FSC has not endorsed the following new, amended and revised standards and interpretations issued by the IASB (the "New IFRSs") included in the 2013 IFRSs version. Furthermore, the FSC has not announced the effective date for the following New IFRSs that are not included in the 2013 IFRSs version.

The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC	Effective Date Announced by IASB (Note 1)
Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 and January 1, 2010, as appropriate
Amendment to IAS 39 "Embedded Derivatives"	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 and January 1, 2011, as appropriate
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters"	July 1, 2010
Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters"	July 1, 2011
Amendment to IFRS 1 "Government Loans"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Transfer of Financial Assets"	July 1, 2011
IFRS 10 "Consolidated Financial Statements"	January 1, 2013
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"	January 1, 2013
Amendments to IFRS 10 and IFRS 12 and IAS 27 "Investment Entities"	January 1, 2014
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendment to IAS 1 "Presentation of Other Comprehensive Income"	July 1, 2012
Amendment to IAS 12 "Deferred tax: Recovery of Underlying Assets"	January 1, 2012
IAS 19 (Revised 2011) "Employee Benefits"	January 1, 2013
IAS 27 (Revised 2011) "Separate Financial Statements"	January 1, 2013
IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"	January 1, 2013
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities"	January 1, 2014
IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine"	January 1, 2013

The New IFRSs Not Included in the 2013 IFRSs Version	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
IFRS 9 "Financial Instruments"	Effective date not determined
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	Effective date not determined
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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

Note2: The amendment to IFRS 2 applies to share-based payment transactions for which the grant date is on or after 1 July 2014; the amendment to IFRS 3 applies to business combinations for which the acquisition date is on or after 1 July 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

b. Significant impending changes in accounting policy resulted from New IFRSs in issue but not yet effective

Except for the following, the initial application of the above New IFRSs has not had any material impact on the Company's accounting policies:

1. IFRS 9 "Financial Instruments"

Recognition and measurement 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. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of reporting period. 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.

Recognition and measurement of financial liabilities

As for financial liabilities, the main changes in the classification and measurement relate to the subsequent measurement of financial liabilities designated as at fair value through profit or loss. The amount of change in the fair value of such financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income and the remaining amount of change in the fair value of that liability is presented in profit or loss, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. If the above accounting treatment would create or enlarge an accounting mismatch in profit or loss, the Company presents all gains or losses on that liability in profit or loss.

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 risk eligible for hedge accounting of non-financial items; (2) changing the way hedging 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.

Effective date

The mandatory effective date of IFRS 9, which was previously set at January 1, 2015, was removed and will be reconsidered once the standard is complete with a new impairment model and finalization of any limited amendments to classification and measurement.

2. IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

c. The impact of the application of New IFRSs and the Regulations Governing the Preparation of Financial Reports by Securities Issuers in issue but not yet effective on the Company's parent company only financial statements was as follows:

As of the date the parent company only financial statements were authorized for issue, the Company is continuingly assessing the possible impact that the application of the above New IFRSs will have on the Company's financial position and operating result, and will disclose the relevant impact when the assessment is complete.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company's financial statements for the year ended December 31, 2013 is its first IFRS financial statements prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Statement of Compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations").

Basis of Preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries, associates and jointly controlled entities. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries, associates and joint ventures, share of other comprehensive income of subsidiaries, associates and joint ventures and accumulated earnings, as appropriate, in the parent company only financial statements.

For readers' convenience, the accompanying parent company only 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 parent company only financial statements shall prevail. However, the accompanying parent company only 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. Those assets held primarily for trading purposes;
b. Those assets to be realized within twelve months;
c. Cash and cash equivalents from the balance sheet date unless the asset is to be used for an exchange or to settle a liability, or otherwise remains restricted, at more than twelve months after the balance sheet date.

Current liabilities are:

a. Obligations incurred for trading purposes;
b. Obligations to be settled within twelve months from the balance sheet date;
c. An unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

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

Business Combinations

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

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

Goodwill is measured as the excess of the sum of the consideration transferred 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 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 gain from bargain purchase.

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

Foreign Currencies

In preparing the parent company only 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. Functional currency is the currency of the primary economic environment in which the entity operates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items 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.

Exchange differences arising on the retranslation of non-monetary assets (such as equity instruments) or liabilities measured at fair value are included in profit or loss for the period at the rates prevailing at the end of reporting period except for exchange differences arising on 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.

For the purposes of presenting parent company only 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, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of 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 are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences 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 and accumulated in equity.

Inventories

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

Investments in Subsidiaries

Subsidiaries (including special purpose entities) are the entities controlled by the Company.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

When the Company ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, the Company accounts for all amounts previously 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.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and sidestream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

Jointly Controlled Entities

Joint venture arrangements that involve the establishment of a separate entity in which ventures have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

When the Company subscribes for its jointly controlled entity's newly issued shares 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 jointly controlled entity. The Company records such a difference as an adjustment to investments accounted for by the equity method, with a corresponding amount credited or charged to capital surplus. If additional subscription of the new shares of jointly controlled entity results in a decrease in the ownership interest, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that jointly controlled entity 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 jointly controlled entity equals or exceeds the Company's interest in that jointly controlled entity (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 jointly controlled entity), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

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 jointly controlled entity 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.

When necessary, 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 forms part of 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 it ceases to have significant influence over the jointly controlled entity. 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 jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities.

When the Company transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Company' parent company only financial statements only to the extent of interests in the jointly controlled entity that are not related to the Company.

Property, Plant and Equipment

Property, plant and equipment are tangible items that held for use in the production, supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used more than twelve months. Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

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

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

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

Goodwill

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

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

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 allocated goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired 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 on goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the Company 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.

When investment in subsidiary accounted for by equity method is tested for impairment, the cash-generating unit is determined based on the financial statements as a whole. If the recoverable amount of the asset subsequently increases, the reversal of the impairment loss is recognized as a gain, but the increased carrying amount of an asset after a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized on the asset in prior years.

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 over their estimated useful lives. 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 being accounted for on a prospective basis which is in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, 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 can be identified.

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

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

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

When an impairment loss subsequently 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.

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/settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a. Measurement category

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

1. Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

In addition, if a contract contains one or more embedded derivatives, the entire combined contract (asset or liability) can be designated as at FVTPL.

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity other than those that the entity upon initial recognition designates as at fair value through profit or loss, or designates as available for sale, or meet the definition of loans and receivables. Corporate bonds above specific credit ratings and the Company has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

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

3. AFS financial assets

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

Fair value is determined in the manner described in Note 32.

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.

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

4. Loans and receivables

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

b. Impairment of financial assets

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

For certain categories of financial assets, such as trade receivables 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

c. Derecognition of financial assets

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

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

<u>Equity instruments</u>

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

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

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

<u>Financial liabilities</u>

a. Subsequent measurement

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

<u>Financial liabilities at FVTPL</u>

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

A financial liability is classified as held for trading if:

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

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

In addition, if a contract contains one or more embedded derivatives, the entire combined contract (asset or liability) can be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 32.

b. Derecognition of financial liabilities

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

<u>Derivative financial instruments</u>

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 in respect of foreign currency risk as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Note 32 sets out details of the fair values of the derivative instruments used for hedging purposes.

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

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

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. 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 the forecast transaction is ultimately recognized in profit or loss, the associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss or are included in the initial cost of the non-financial asset or non-financial liability. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

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

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

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

a. Warranty provisions

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

b. Provisions for contingent loss on purchase orders

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

Revenue Recognition

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

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

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

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

Retirement Benefit Costs

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

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

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

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

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

Share-based Payment Arrangements

Share-based payment transactions of the Company

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in 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.

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.

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 stockholders 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 parent company only 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 to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

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

Accrued Marketing Expenses

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

Treasury Stock

When the Company acquires its outstanding shares that have not been disposed or retired, treasury stock is stated at cost and shown as a deduction in stockholders' equity. When treasury shares are sold, if the selling price is above the book value, the difference should be credited to the capital surplus - treasury stock transactions. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. The carrying value of treasury stock is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

a. Accrued marketing and advertising expenses

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of accrued marketing and advertising expenses were NT$19,328,804 thousand, NT$15,531,875 thousand and NT$25,556,956 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, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of allowances for doubtful debts were NT$3,050,907 thousand, NT$2,059,086 thousand and NT$1,554,008 thousand, respectively.

c. Impairment of tangible and intangible assets other than goodwill

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

The recoverable amount of intangible assets is less than its carrying amount. The Company recognized impairment loss on intangible assets other than goodwill for NT$111,085 thousand for the year ended December 31, 2013.

d. Impairment of goodwill

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

The Company determined that the recoverable amount of goodwill in 2012 was less than its carrying amount and thus recognized an impairment loss on goodwill for NT$45,017 thousand for the year ended December 31, 2012.

e. Valuation of inventories

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

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of inventories were NT$18,463,656 thousand, NT$20,521,967 thousand and NT$25,389,320 thousand, respectively.

f. Realization of deferred tax assets

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of deferred tax assets were NT$6,475,936 thousand, NT$6,545,718 thousand and NT$5,359,291 thousand, respectively.

g. Estimates of warranty provision

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

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

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of warranty provision were NT$6,391,787 thousand, NT$6,780,712 thousand and NT$12,755,264 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	$1,010	$1,010	$1,000
Checking accounts	15,209	4,562	7,903
Demand deposits	9,305,095	29,544,930	21,844,352
Time deposits (with original maturities less than three months)	23,713,190	12,995,427	31,544,315
	$33,034,504	$42,545,929	$53,397,570

Cash equivalents include time deposits that have a maturity of three months or less from the date of acquisition, are readily convertible to a known amount of cash, and are subject to an insignificant risk of change in value; these were held for the purpose of meeting short-term cash commitments.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Bank deposits	0.20%-0.85%	0.20%-1.05%	0.15%-1%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets held for trading			
Derivatives (not designated as hedging instruments)			
Exchange contracts	$162,297	$6,950	$256,868

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

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
December 31, 2013					
Foreign exchange contracts	Sell	EUR/USD	2014.01.02-2014.01.29	EUR	61,000
Foreign exchange contracts	Sell	JPY/USD	2014.03.31	JPY	3,755,090
Foreign exchange contracts	Sell	GBP/USD	2014.01.15-2014.01.22	GBP	12,000
Foreign exchange contracts	Sell	USD/NTD	2014.01.06-2014.02.05	USD	391,700
Foreign exchange contracts	Sell	CAD/USD	2014.01.13-2014.01.29	CAD	5,500
Foreign exchange contracts	Buy	USD/RMB	2014.01.08-2014.01.22	USD	100,600
Foreign exchange contracts	Buy	CAD/USD	2014.01.13	CAD	4,000
Foreign exchange contracts	Buy	RMB/USD	2014.01.08	RMB	11,000
Foreign exchange contracts	Buy	EUR/USD	2014.01.15-2014.01.22	EUR	18,000
Foreign exchange contracts	Buy	GBP/USD	2014.01.15-2014.01.22	GBP	2,000
December 31, 2012					
Foreign exchange contracts	Sell	EUR/USD	2013.01.11-2013.03.27	EUR	146,000
Foreign exchange contracts	Sell	GBP/USD	2013.01.09-2013.03.20	GBP	20,700
Foreign exchange contracts	Sell	USD/NTD	2013.01.17-2013.02.20	USD	70,000
Foreign exchange contracts	Sell	USD/RMB	2013.01.09-2013.01.30	USD	78,000
Foreign exchange contracts	Buy	USD/RMB	2013.01.09-2013.01.30	USD	106,000
Foreign exchange contracts	Buy	USD/JPY	2013.01.09-2013.03.08	USD	97,437
Foreign exchange contracts	Buy	USD/CAD	2013.01.09-2013.02.22	USD	22,158
Foreign exchange contracts	Buy	USD/NTD	2013.01.07-2013.02.21	USD	270,000
January 1, 2012					
Foreign exchange contracts	Buy	USD/CAD	2012.01.11-2012.02.22	USD	28,010
Foreign exchange contracts	Buy	USD/RMB	2012.01.04-2012.01.31	USD	105,000
Foreign exchange contracts	Sell	EUR/USD	2012.01.04-2012.03.30	EUR	339,000
Foreign exchange contracts	Sell	GBP/USD	2012.01.11-2012.02.22	GBP	17,100

8. Available-for-sale Financial Assets

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic investments			
Listed stocks	$239	$197	$279
Mutual funds	-	-	736,031
	$239	$197	$736,310
Current	$-	$-	$736,031
Non-current	239	197	279
	$239	$197	$736,310

9. Held-to-maturity Financial Assets

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

10. Derivative Financial Instruments for Hedging

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

The Company's foreign-currency cash flows derived from the highly probable forecast transaction may lead to risks on foreign-currency financial assets and liabilities and estimated future cash flows due to the exchange rate fluctuations. The Company assesses the risks may be significant; thus, the Company entered into derivative contracts to hedge against foreign-currency exchange risks.

The terms of the forward exchange contracts had been negotiated to match the terms of the respective designated hedged items. The outstanding forward exchange contracts of the Company at the end of the reporting period were as follows:

	Buy/ Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
December 31, 2012					
Foreign exchange contracts	Buy	USD/JPY	2013.03.28	USD	95,356

The Company supplied products to clients in Japan and signed forward exchange contracts to avoid its exchange rate exposure due to the forecast sales. Those forward exchange contracts were designated as cash flow hedges.

Gains and losses of hedging instruments transferred from equity to profit or loss were included in the following line items in the statements of comprehensive income:

	For the Year Ended December 31	
	2013	2012
Revenues	$262,648	$-
Other gains and losses	151,305	10,467
	$413,953	$10,467

11. Financial Assets Measured at Cost

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic unlisted equity investment	$515,861	$515,861	$515,861
Classified according to financial asset measurement categories Available-for-sale financial assets	$515,861	$515,861	$515,861

Management believed that the above unlisted equity investments 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 at the end of reporting period.

12. Other Current Financial Assets

	December 31, 2013	December 31, 2012	January 1, 2012
Trust assets for employee benefit	$2,359,041	$3,645,820	$-
Time deposits with original maturities more than three months	-	1,960,900	25,538,650
	$2,359,041	$5,606,720	$25,538,650

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Time deposits with original maturities more than three months	-	0.39%-1.10%	0.39%-1.345%

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

13. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31, 2013	December 31, 2012	January 1, 2012
Note and trade receivables			
Note receivables	$-	$-	$755,450
Trade receivables	17,017,529	21,816,781	32,852,266
Trade receivables - related parties	13,203,577	19,468,130	32,977,269
Less: Allowances for doubtful debts	(3,050,907)	(2,073,018)	(1,567,940)
	$27,170,199	$39,211,893	$65,017,045
Other receivables			
Loan receivables - fluctuation rate	$-	$6,554,025	$-
VAT refund receivables	102,407	210,066	558,279
Interest receivables	7,344	52,806	19,927
Others	1,746,645	1,117,226	1,115,915
	$1,856,396	$7,934,123	$1,694,121

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 doubtful debts of 10-100% against receivables past due more than 31 days.

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

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

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

Age of impaired trade receivables

	December 31, 2013	December 31, 2012	January 1, 2012
1-90 days	$10,471,140	$5,775,662	$11,039,103
91-180 days	406,751	164,250	408,378
Over 181 days	-	-	60,724
	$10,877,891	$5,939,912	$11,508,205

The above was shown after deducting the allowance for doubtful debts and analyzed on the basis of the past due date.

Movement in the allowances for doubtful debts

	For the Year Ended December 31	
	2013	2012
Balance, beginning of the year	$2,073,018	$1,567,940
Impairment losses recognized on receivables	991,821	505,078
Amounts written off as uncollectible	(13,932)	-
Balance, end of the year	$3,050,907	$2,073,018

Other Receivables

Loan receivables - fluctuation rate is the short-term loan to Beats Electronics, LLC. For more details, please refer to Note 33.

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

14. INVENTORIES

	December 31, 2013	December 31, 2012	January 1, 2012
Finished goods	$1,246,743	$764,667	$675,712
Work-in-process	528,331	1,940,584	3,766,461
Semi-finished goods	6,525,186	3,954,056	4,083,050
Raw materials	9,885,652	13,652,134	16,788,114
Inventory in transit	277,744	210,526	75,983
	$18,463,656	$20,521,967	$25,389,320

The losses on inventories decline amounting to NT$439,139 thousand and NT$1,211,554 thousand were recognized as cost of revenues for the years ended December 31, 2013 and 2012, respectively.

15. PREPAYMENTS

	December 31, 2013	December 31, 2012	January 1, 2012
Royalty	$10,425,441	$8,238,869	$10,736,178
Prepayments to suppliers	2,484,795	2,974,176	3,206,046
Molding expenses	302,385	96,859	188,242
Prepaid equipment	146,783	208,750	103,745
Software and hardware maintenance	130,087	673,703	263,211
Service	16,241	61,171	548,480
Others	105,299	67,134	72,862
	$13,611,031	$12,320,662	$15,118,764
Current	$3,596,806	$4,154,949	$6,473,372
Non-current	10,014,225	8,165,713	8,645,392
	$13,611,031	$12,320,662	$15,118,764

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.

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

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31, 2013	December 31, 2012	January 1, 2012
Investment in subsidiaries	$41,902,845	$39,539,940	$35,904,924
Investment in jointly controlled entity	227,504	241,309	-
	$42,130,349	$39,781,249	$35,904,924

Investments in Subsidiaries

	December 31, 2013	December 31, 2012	January 1, 2012
Unlisted companies			
H.T.C. (B.V.I.) Corp.	$2,985,327	$2,853,189	$2,885,514
Communication Global Certification Inc.	566,965	563,998	463,312
High Tech Computer Asia Pacific Pte. Ltd.	29,477,842	26,446,634	22,094,532
HTC Investment Corporation	303,556	303,889	301,332
PT. High Tech Computer Indonesia	62	62	62
HTC I Investment Corporation	298,654	300,106	295,902
HTC Holding Cooperatief U.A.	13	13	13
Huada Digital Corporation	-	-	250,689
HTC Investment One (BVI) Corporation	8,270,426	9,072,019	9,613,568
FunStream Corporation	-	30	-
	$41,902,845	$39,539,940	$35,904,924

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

	December 31, 2013	December 31, 2012	January 1, 2012
H.T.C. (B.V.I.) Corp.	100.00%	100.00%	100.00%
Communication Global Certification Inc.	100.00%	100.00%	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	100.00%	100.00%	100.00%
HTC Investment Corporation	100.00%	100.00%	100.00%
PT. High Tech Computer Indonesia	1.00%	1.00%	1.00%
HTC I Investment Corporation	100.00%	100.00%	100.00%
HTC Holding Cooperatief U.A.	0.01%	0.01%	0.01%
Huada Digital Corporation	50.00%	50.00%	50.00%
HTC Investment One (BVI) Corporation	100.00%	100.00%	100.00%
FunStream Corporation	-	100.00%	-

Refer to Note 29 to the consolidated financial statements for the year ended December 31, 2013 for the disclosures of the Company's acquisitions of FunStream Corporation. Refer to Note 4 for the details of the subsidiaries indirectly held by the Company.

The Company and its subsidiary, High Tech Computer Asia Pacific Pte. Ltd., acquired equity interests of 1% and 99%, respectively, in PT. High Tech Computer Indonesia and acquired equity interests of 0.01% and 99.99%, respectively, in HTC Holding Cooperatief U.A. As a result, PT. High Tech Computer Indonesia and HTC Holding Cooperatief U.A. are considered as subsidiaries of the Company.

In 2012, the Company determined that the recoverable amount of investment in FunStream Corporation was less than its carrying amount and thus recognized an impairment loss of NT$45,017 thousand. FunStream Corporation was dissolved in June 2013.

The share of net income or loss and other comprehensive income from subsidiaries under equity method were accounted for based on the audited financial statements.

Investments in Jointly Controlled Entity

	December 31, 2013	December 31, 2012	January 1, 2012
Unlisted companies			
Huada Digital Corporation	$227,504	$241,309	$-

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

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

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

The investments in jointly controlled entity and the share of net income and other comprehensive income from investments are accounted for based on the audited financial statements.

17. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2013	December 31, 2012	January 1, 2012
Carrying amounts			
Land	$7,462,489	$7,462,489	$7,462,281
Buildings	8,245,062	8,330,607	2,742,684
Property in construction	-	-	1,923,875
Machinery and equipment	3,529,270	3,573,566	2,887,919
Other equipment	536,787	360,174	301,841
	$19,773,608	$19,726,836	$15,318,600

Movement of property, plant and equipment for the years ended December 31, 2013 and 2012 were as follows:

	2013					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$7,462,489	$9,520,993	$-	$8,732,565	$969,180	$26,685,227
Additions	-	270,787	1,581	1,069,092	309,839	1,651,299
Disposal	-	(5,995)	-	(56,518)	(64,456)	(126,969)
Reclassification	-	18,726	-	(1,664)	(17,062)	-
Transfer to expense	-	-	(1,581)	-	-	(1,581)
Balance, end of the year	7,462,489	9,804,511	-	9,743,475	1,197,501	28,207,976
Accumulated depreciation						
Balance, beginning of the year	-	1,190,386	-	5,158,999	609,006	6,958,391
Depreciation expenses	-	356,332	-	1,113,388	133,226	1,602,946
Disposal	-	(5,995)	-	(56,518)	(64,456)	(126,969)
Reclassification	-	18,726	-	(1,664)	(17,062)	-
Balance, end of the year	-	1,559,449	-	6,214,205	660,714	8,434,368
Net book value, end of the year	$7,462,489	$8,245,062	$-	$3,529,270	$536,787	$19,773,608

	2012					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$7,462,281	$3,680,608	$1,923,875	$7,272,704	$829,193	$21,168,661
Additions	208	224,427	3,916,746	1,632,493	151,859	5,925,733
Disposal	-	-	-	(172,632)	(11,987)	(184,619)
Transfer to expense	-	-	(5,912)	-	-	(5,912)
Reclassification	-	5,615,958	(5,834,709)	-	115	(218,636)
Balance, end of the year	7,462,489	9,520,993	-	8,732,565	969,180	26,685,227
Accumulated depreciation						
Balance, beginning of the year	-	937,924	-	4,384,785	527,352	5,850,061
Depreciation expenses	-	252,462	-	946,846	93,641	1,292,949
Disposal	-	-	-	(172,632)	(11,987)	(184,619)
Balance, end of the year	-	1,190,386	-	5,158,999	609,006	6,958,391
Net book value, end of the year	$7,462,489	$8,330,607	$-	$3,573,566	$360,174	$19,726,836

The above items of property, plant and equipment were depreciated on a straight-line basis at the following rates per annum:

Building	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 were depreciated over their estimated useful lives of 40 to 50 years, 20 years and 5 to 10 years, respectively.

There were no interests capitalized for the years ended December 31, 2013 and 2012.

18. INTANGIBLE ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Carrying amounts			
Patents	$1,027,295	$1,625,340	$2,120,948
Other intangible assets	623,596	91,810	120,593
	$1,650,891	$1,717,150	$2,241,541

Movements of intangible assets for the years ended December 31, 2013 and 2012 were as follows:

	2013		
	Patents	Other Intangible Assets	Total
Cost			
Balance, beginning of the year	$2,500,854	$141,128	$2,641,982
Additions			
Acquisition	22,214	171,312	193,526
Transfer from prepayment	-	509,710	509,710
Disposal	(6,778)	-	(6,778)
Balance, end of the year	2,516,290	822,150	3,338,440
Accumulated amortization			
Balance, beginning of the year	875,514	49,318	924,832
Amortization expenses	502,396	149,236	651,632
Balance, end of the year	1,377,910	198,554	1,576,464

(Continued)

	2013		
	Patents	Other Intangible Assets	Total
Accumulated impairment			
Balance, beginning of the year	-	-	-
Impairment losses	111,085	-	111,085
Balance, end of the year	111,085	-	111,085
Net book value, end of the year	$1,027,295	$623,596	$1,650,891

(Concluded)

	2012		
	Patents	Other Intangible Assets	Total
Cost			
Balance, beginning of the year	$2,500,854	$178,133	$2,678,987
Disposal	-	(37,005)	(37,005)
Balance, end of the year	2,500,854	141,128	2,641,982
Accumulated amortization			
Balance, beginning of the year	$379,906	$57,540	$437,446
Amortization expenses	495,608	28,783	524,391
Disposal	-	(37,005)	(37,005)
Balance, end of the year	875,514	49,318	924,832
Net book value, end of the year	$1,625,340	$91,810	$1,717,150

19. NOTE AND TRADE PAYABLES

	December 31, 2013	December 31, 2012	January 1, 2012
Note payables	$1,355	$294	$3,779
Trade payables	42,787,368	71,227,290	72,851,595
Trade payables - related parties	5,622,019	2,902,985	3,639,231
	$48,410,742	$74,130,569	$76,494,605

The average term of payment is four months. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

20. OTHER LIABILITIES

	December 31, 2013	December 31, 2012	January 1, 2012
Other payables			
Accrued expenses	$33,004,452	$30,873,737	$42,895,879
Payables for purchase of equipment	340,961	1,119,058	348,772
Others	217,440	218,468	276,802
	$33,562,853	$32,211,263	$43,521,453
Other current liabilities			
Advance receipts	$221,342	$86,700	$134,748
Agency receipts	173,221	270,073	388,885
Others	138,242	830,283	630,563
	$532,805	$1,187,056	$1,154,196

Accrued Expenses

	December 31, 2013	December 31, 2012	January 1, 2012
Marketing	$19,328,804	$15,531,875	$25,556,956
Salaries and bonuses	4,037,445	3,545,320	2,599,569
Services	3,340,826	2,429,101	2,760,164
Bonus to employees	3,278,053	5,712,075	7,238,637
Materials and molding expenses	1,650,849	1,900,218	1,848,332
Import, export and freight	620,775	443,604	1,197,075
Repairs, maintenance and sundry purchase	176,361	391,726	264,044
Others	571,339	919,818	1,431,102
	$33,004,452	$30,873,737	$42,895,879

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

Other Payables - Others

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

21. PROVISIONS

	December 31, 2013	December 31, 2012	January 1, 2012
Warranty provision	$6,391,787	$6,780,712	$12,755,264
Provisions for contingent loss on purchase orders	832,850	823,005	2,052,881
	$7,224,637	$7,603,717	$14,808,145

Movement of provisions for the years ended December 31, 2013 and 2012 were as follows:

	2013		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$6,780,712	$823,005	$7,603,717
Provisions recognized	12,186,568	359,350	12,545,918
Amount utilized during the year	(12,679,039)	(349,505)	(13,028,544)
Translation adjustment	103,546	-	103,546
Balance, end of the year	$6,391,787	$832,850	$7,224,637

	2012		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$12,755,264	$2,052,881	$14,808,145
Provisions recognized	8,497,459	-	8,497,459
Reversing un-usage balances	-	(751,363)	(751,363)
Amount utilized during the year	(14,248,587)	(478,513)	(14,727,100)
Translation adjustment	(223,424)	-	(223,424)
Balance, end of the year	$6,780,712	$823,005	$7,603,717

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

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

22. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The total expenses recognized in the statement of comprehensive income were NT$428,469 thousand and NT$411,916 thousand, representing the contributions payable to these plans by the Company at the rates specified in the plans for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, December 31, 2012 and January 1, 2012, the amounts of contributions payable were NT$103,649 thousand, NT$105,776 thousand and NT$110,560 thousand, respectively, representing contributions not yet paid for the reporting period. The amounts were paid subsequent to the end of the reporting period.

Defined Benefit Plans

Based on the defined benefit plan under the Labor Standards Law ("LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributed amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in Bank of Taiwan in the committee's name.

The actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out by qualifying actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Discount rates	1.875%	1.625%	1.75%
Expected return on plan assets	2.000%	1.875%	2.00%
Expected rates of salary increase	4.000%	4.000%	4.00%

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

	For the Year Ended December 31	
	2013	2012
Service cost	$4,598	$5,600
Interest cost	6,388	6,662
Expected return on plan assets	(9,858)	(9,893)
	$1,128	$2,369
An analysis by function		
Cost of revenues	$301	$616
Selling and marketing	89	738
General and administrative	128	249
Research and development	610	766
	$1,128	$2,369

The amounts of actuarial losses recognized in other comprehensive income were NT$15,205 and NT$4,407 thousand for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, the amounts of actuarial losses recognized in accumulated other comprehensive income were NT$19,612 and NT$4,407 thousand, respectively.

The amounts included in the balance sheets in respect of the obligation under the defined benefit plans were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded defined benefit obligation	$(411,522)	$(393,124)	$(380,659)
Fair value of plan assets	537,416	512,646	481,685
Defined benefit assets	$125,894	$119,522	$101,026

Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2013	2012
Opening defined benefit obligation	$393,124	$380,659
Current service cost	4,599	5,601
Interest cost	6,388	6,661
Actuarial losses	13,730	203
Benefits paid	(6,319)	-
Closing defined benefit obligation	$411,522	$393,124

Movement in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2013	2012
Opening fair value of plan assets	$512,646	$481,685
Expected return on plan assets	9,858	9,893
Actuarial losses	(3,246)	(5,107)
Contributions from the employer	24,476	26,175
Benefits paid	(6,318)	-
Closing fair value of plan assets	$537,416	$512,646

The major categories of plan assets at the end of the reporting period for each category were disclosed based on the information announced by Labor Pension Fund Supervisory Committee:

	December 31, 2013	December 31, 2012	January 1, 2012
Equity instruments	44.77%	37.43%	40.75%
Debt instruments	54.44%	61.78%	59.12%
Others	0.79%	0.79%	0.13%
	100.00%	100.00%	100.00%

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

The Company expects to make a contribution of NT$22,751 thousand to the defined benefit pension plan within one year from December 31, 2013.

23. EQUITY

Share Capital

a. Common stock

	December 31, 2013	December 31, 2012	January 1, 2012
Authorized shares (in thousands of shares)	1,000,000	1,000,000	1,000,000
Authorized capital	$10,000,000	$10,000,000	$10,000,000
Issued and fully paid shares (in thousands of shares)	842,351	852,052	852,052
Issued capital	$8,423,505	$8,520,521	$8,520,521

Fully paid ordinary shares, which have a par value of $10, carry one vote per share and carry a right to dividends.

16,000 thousand shares of the Company's shares authorized were reserved for the issuance of employee share options, respectively.

b. Global depositary receipts

In November 2003, the Company issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, the Company's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of stock dividends, the GDRs increased to 8,782.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of December 31, 2013, there were 8,289.9 thousand units of GDRs redeemed, representing 33,159.8 thousand common shares, and the outstanding GDRs represented 2,900.7 thousand common shares or 0.35% of the Company's outstanding common shares.

Capital Surplus

	December 31, 2013	December 31, 2012	January 1, 2012
Additional paid-in capital - issuance of shares in excess of par	$14,640,983	$14,809,608	$14,809,608
Treasury shares	631,791	1,730,458	1,730,458
Merger	24,145	24,423	24,423
Employee share options	26,742	-	-
Expired stock options	36,646	37,068	37,068
	$15,360,307	$16,601,557	$16,601,557

The premium from shares issued in excess of par (share premium from issuance of common shares, treasury shares transactions, merger 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 capital (limited to a certain percentage of the Company's capital surplus and once a year).

In September and November 2013, the retirement of treasury shares caused decreases of NT$168,625 thousand in additional paid-in capital - issuance of shares in excess of par, NT$9,727 thousand in capital surplus - treasury shares, NT$278 thousand in capital surplus - merger and NT$422 thousand in capital surplus - expired stock options. The difference the carrying value of treasury shares retired in excess of the sum of its par value and premium from issuance of common share was firstly offset against capital surplus - treasury shares by NT$1,088,940 thousand, and the rest offset against accumulated earnings amounting to NT$814,170 thousand.

Retained Earnings and Dividend Policy

Under the Company's Articles of Incorporation, the Company 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 the Company's authorized capital.

d. To recognize or reverse special reserve return earnings.

e. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above items (a) to (d).

f. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above items (a) to (d), or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include the affiliates' employees who meet specific requirements prescribed by the board of directors.

g. For any remainder, the board of directors should propose allocation ratios based on the dividend policy set forth in the Company's Articles and propose them at the stockholders' meeting.

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

No employee bonus was estimated as the Company reported net loss for the year ended December 31, 2013. The employee bonus for 2012 should be appropriated at 5% of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Under Rule No. 100116 and Rule No. 0950000507 issued by the FSC, an amount equal to the net debit balance of certain shareholders' equity accounts shall be transferred from unappropriated earnings to a special reserve before any appropriation of earnings generated before January 1, 2012 shall be made. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

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

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

The appropriations of earnings for 2012 and 2011 had been approved in the shareholders' meetings on June 21, 2013 and June 12, 2012, respectively. The appropriations and dividends per share were as follows:

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

The bonus to employees for 2012 and 2011 approved in the shareholders' meetings on June 21, 2013 and June 12, 2012, respectively, were as follows:

	Amounts Approved in Shareholders' Meetings	Amounts Recognized in Financial Statements
For 2012		
Cash	$976,327	
Stock	-	
	$976,327	$976,327
For 2011		
Cash	$7,238,637	
Stock	-	
	$7,238,637	$7,238,637

The approved amounts of bonus to employees were the same as the accrual amounts recognized in the financial statements for 2012 and 2011, respectively.

The appropriations of earnings for 2012 were proposed according to the Company's financial statements for the years ended December 31, 2012, which were prepared in accordance with the pre-amended Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China, and by reference to the balance sheet for the year ended December 31, 2012, which was prepared in accordance with the amended Guidelines Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards.

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

Other Equity

	December 31, 2013	December 31, 2012	January 1, 2012
Exchange differences on translating foreign operations	$559,719	$(1,089,693)	$-
Unrealized (loss) gains on available-for-sale financial assets	(2,021)	9,716	2,939
Cash flow hedge	-	194,052	-
	$557,698	$(885,925)	$2,939

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. Cash flow hedging

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

Treasury Shares

On August 2, 2013, the Company's board of directors passed a resolution to buy back 15,000 thousand Company shares from the open market. The repurchase period was between August 5, 2013 and October 4, 2013, and the repurchase price ranged from NT$140 to NT$290 per share. If the Company's share price is lower than this price range, the Company may continue to buy back its shares. The Company had bought back 7,789 thousand shares for NT$1,033,846 thousand during the repurchase period, which retired by the Company's board of directors in November 2013.

The Company had repurchased company shares from the open market for transferring to employees and some of them had not been transferred before the expiry time. The Board of Directors approved the retirement of 1,912 thousand treasury stocks on September 27, 2013. The related information on the treasury stock transactions was as follows:

(In Thousands of Shares)

Reason to Reacquire	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
For 2013				
To transfer shares to the Company's employees	20,825	-	1,912	18,913
To maintain the Company's credibility and stockholders' interest	-	7,789	7,789	-
	20,825	7,789	9,701	18,913
For 2012				
To transfer shares to the Company's employees	14,011	6,814	-	20,825

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of a company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par and realized capital surplus.

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

24. REVENUE

	For the Year Ended December 31	
	2013	2012
Sale of goods	$191,186,751	$269,079,239
Other operating income	3,107,293	1,622,448
	$194,294,044	$270,701,687

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT$262,648 thousand of the gain on the hedging instrument that was determined to be the effective portion of the hedge to sales of goods for the year ended December 31, 2013.

25. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2013	2012
Interest income		
Cash in bank	$214,746	$421,057
Held-to-maturity financial assets	794	1,710
Loan	211,139	82,027
	426,679	504,794
Others	248,980	459,705
	$675,659	$964,499

b. Other gains and losses

	For the Year Ended December 31	
	2013	2012
Gain on sale of available-for-sale financial assets	$-	$7,695
Net foreign exchange gains	482,568	710,312
Valuation gains on financial assets classified as held for trading	162,297	6,950
Hedge ineffective portion on cash flow hedges	151,305	10,467
Gain on disposal of intangible assets	110,602	-
Impairment losses	(111,085)	(45,017)
Other losses	(37,678)	(109,986)
	$758,009	$580,421

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.

c. Impairment losses on financial assets

	For the Year Ended December 31	
	2013	2012
Trade receivables (included in operating expense)	$991,821	$505,078

d. Depreciation and amortization

	For the Year Ended December 31	
	2013	2012
Property, plant and equipment	$1,602,946	$1,292,949
Intangible assets	651,632	524,391
	$2,254,578	$1,817,340
Classification of depreciation - by function		
Cost of revenues	$873,928	$687,259
Operating expenses	729,018	605,690
	$1,602,946	$1,292,949
Classification of amortization - by function		
Cost of revenues	$-	$4,300
Operating expenses	651,632	520,091
	$651,632	$524,391

e. Employee benefits expense

	For the Year Ended December 31	
	2013	2012
Post-employment benefits (Note 23)		
Defined contribution plans	$428,469	$411,916
Defined benefit plans	1,128	2,369
	429,597	414,285
Share-based payments		
Equity-settled share-based payments	23,443	-
Other employee benefits	10,529,260	12,021,593
Total employee benefits expense	$10,982,300	$12,435,878
Classification - by function		
Cost of revenues	$5,625,526	$5,163,909
Operating expenses	5,356,774	7,271,969
	$10,982,300	$12,435,878

f. Impairment losses on non-financial assets

	For the Year Ended December 31	
	2013	2012
Inventories (included in cost of revenues)	$439,139	$1,211,554
Investments accounted for by the equity method (included in other gains and losses)	-	45,017
Intangible assets (including in other gains and losses)	111,085	-
	$550,224	$1,256,571

26. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2013	2012
Current tax		
In respect of the current period	$3,525	$1,341,594
Deferred tax		
In respect of the current period	35,053	75,644
Adjustments to deferred tax attributable to changes in tax rates and laws	-	(1,298,103)
	35,053	(1,222,459)
Income tax recognized in profit or loss	$38,578	$119,135

The income tax for the years ended December 31, 2013 and 2012 can be reconciled to the accounting profit as follows:

	For the Year Ended December 31	
	2013	2012
(Loss) profit before income tax	$(1,285,207)	$16,932,710
Income tax calculated at 17%	-	2,878,561
Effect of expenses that were not deductible in determining taxable profit	29,858	26,285
Share of the profit or loss of subsidiaries, associates and joint ventures	182,898	(105,013)

(Continued)

	For the Year Ended December 31	
	2013	2012
Effect of temporary differences	(177,703)	(2,073,806)
Effect of investment tax credits	(1,126,249)	(1,351,783)
Effect of income that is exempt from taxation	-	(314,339)
Additional income tax under the Alternative Minimum Tax Act	-	46,334
Additional 10% income tax on unappropriated earnings	1,126,249	2,310,999
Effect of Alternative Minimum Tax rate changes from 10% to 12% on deferred income tax (effective in 2013)	-	(1,298,103)
Overseas income tax	3,525	-
Income tax recognized in profit or loss	$38,578	$119,135

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2013	2012
Deferred tax		
Recognized in current year		
Actuarial gain and loss (tax benefit)	$(1,771)	$(903)

c. Current tax assets and liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Current tax assets			
Tax refund receivable	$24,192	$-	$-
Current tax liabilities			
Income tax payable	$303	$1,424,006	$9,653,090

d. Deferred tax balances

The movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2013 and 2012 were as follows:

	2013			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Allowance for loss on decline in value of inventory	$465,643	$(205,928)	$-	$259,715
Unrealized profit	365,524	(63,257)	-	302,267
Unrealized royalties	2,985,884	(556,451)	-	2,429,433
Unrealized marketing expenses	1,203,720	426,200	-	1,629,920
Unrealized warranty expense	583,141	(33,428)	-	549,713
Unrealized contingent losses on purchase orders	70,779	29,166	-	99,945
Others	207,980	160,438	(903)	367,515
	5,882,671	(243,260)	(903)	5,638,508
Loss carryforward	-	837,428	-	837,428
Investment credit	663,047	(663,047)		-
			-	
	$6,545,718	$(68,879)	$(903)	$6,475,936
Deferred tax liabilities				
			$(2,674)	
Temporary differences				
Defined benefit plans	$35,022	$(17,240)	-	$15,108
Financial assets at FVTPL	2,961	16,515		19,476
Unrealized gain on investments	112,551	(33,101)	-	79,450
	$150,534	$(33,826)	$(2,674)	$114,034

	2012			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Allowance for loss on decline in value of inventory	$463,119	$2,524	$-	$465,643
Unrealized profit	173,146	192,378	-	365,524
Unrealized royalties	1,981,614	1,004,270	-	2,985,884
Unrealized marketing expenses	1,686,759	(483,039)	-	1,203,720
Unrealized warranty expense	841,847	(258,706)	-	583,141
Unrealized contingent losses on purchase orders	135,490	(64,711)	-	70,779
Others	77,316	129,761	903	207,980
	5,359,291	522,477	903	5,882,671
Investment credit	-	663,047	-	663,047
	$5,359,291	$1,185,524	$903	$6,545,718
Deferred tax liabilities				
Temporary differences	$31,250	$3,772	$-	$35,022
Defined benefit plans	43,668	(40,707)	-	2,961
Financial assets at FVTPL	112,551	-	-	112,551
Unrealized gain on investments				
	$187,469	$(36,935)	$-	$150,534

e. Items for which no deferred tax assets have been recognized

	December 31, 2013	December 31, 2012	January 1, 2012
Loss carryforward	$466,163	$-	$-
Investment credits			
Equipments	$-	$-	$317
Research and development expenditures	-	981,627	3,123,277
	$-	$981,627	$3,123,594
Deductible temporary differences	$4,263,344	$5,283,666	$7,838,956

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

Loss carryforwards as of December 31, 2013 comprised of:

Remaining Carrying	Expiry Year
$7,668,179	2023

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

Item Exempt from Corporate Income Tax	Expiry Year
Sales of wireless and smartphone which has 3.5G and GPS function	2010.01.01-2014.12.31
Sales of wireless and smartphone which has 3.5G and GPS function	2015.01.01-2018.09.30

g. Unrecognized deferred tax liabilities associated with investments

As of December 31, 2013, December 31, 2012 and January 1, 2012, the unrecognized deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and investments in jointly controlled entity were NT$559,255 thousand, NT$297,402 thousand and NT$588,125 thousand, respectively.

h. Integrated income tax

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

	December 31, 2013	December 31, 2012	January 1, 2012
Unappropriated earnings generated on and after January 1, 1998	$47,282,820	$53,630,777	$75,687,478
Balance of ICA	$6,573,169	$5,966,033	$2,523,575

The actual creditable ratio for distribution of earnings of 2012 was 13.47%.

Under Income Tax Act, for distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Company was based on the balance of the ICA as of the date of dividend distribution.

i. Income tax assessments

The Company's income tax returns through 2010 had been assessed by the tax authorities. However, the Company disagreed with the tax authorities' assessment on its returns for unappropriated earnings of 2009 and applied for the administrative remedial. Nevertheless, under the conservatism guideline, the Company adjusted its income tax for the tax shortfall stated in the tax assessment notices.

27. (LOSS) EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2013	2012
Basic (loss) earnings per share	$(1.60)	$20.21
Diluted (loss) earnings per share	$(1.60)	$20.12

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

Net (Loss) Profit for the Years

	For the Year Ended December 31	
	2013	2012
(Loss) profit for the year	$(1,323,785)	$16,813,575

Shares

	For the Year Ended December 31	
	2013	2012
Weighted average number of ordinary shares used in computation of basic (loss) earnings per share	829,082	831,980
Effect of dilutive potential ordinary shares:		
Bonus issue to employees	-	3,748
Weighted average number of ordinary shares used in the computation of diluted (loss) earnings per share	829,082	835,728

If the Company might settle the bonuses paid to employees by cash or shares, the Company presumed that the entire amount of the bonus would be settled in shares and the resulting potential shares should be included in the weighted average number of outstanding shares used in the computation of diluted earnings per share, if the shares had a dilutive effect. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

28. SHARE-BASED PAYMENT ARRANGEMENTS

Qualified employees of the Company and its subsidiaries were granted 15,000 thousand options in November 2013. Each option entitles the holder to subscribe for one common share of the Company. The options granted are valid for 7 years and exercisable at certain percentages after the second anniversary from the grant date. The exercise price equals to the closing price of the Company's common shares on the grant date. For any subsequent changes in the Company's common shares, the exercise price is adjusted accordingly.

Information on employee share options as of the reporting date was as follows:

	For the Year Ended December 31	
	Number of Options (In Thousands)	Weighted average Exercise Price (NT$)
Balance at January 1	-	$-
Options granted during the year	15,000	149
Balance at December 31	15,000	
Options exercisable, end of the year	$-	
Weighted-average fair value of options granted per unit (NT$)	$43.603	

Information about outstanding options as of December 31, 2013 and 2012 was as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Range of exercise price (NT$)	$149	$-	$-
Weighted-average remaining contractual life (years)	6.8 years	-	-

Options granted in November 2013 were priced using the trinomial option pricing model and the inputs to the model were as follows:

	November 2013
Grant-date share price (NT$)	$149
Exercise price (NT$)	149
Expected volatility	45.83%
Expected life (years)	7 years
Expected dividend yield	5.00%
Risk-free interest rate	1.63%

Expected volatility was based on the historical share price volatility over the past one 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.

Compensation cost recognized was NT$26,742 thousand, including subsidiaries' compensation costs amounting to NT$3,299 thousand, for the year ended December 31, 2013.

29. ACQUISITION OF SUBSIDIARIES - WITH OBTAINED CONTROL

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

The Company acquired FunStream Corporation to obtain its techniques in the design, research and development of 3-D technology. For details about the acquisition of this subsidiary, please refer to Note 29 to the consolidated financial statements for the year ended December 31, 2013.

30. DISPOSAL OF SUBSIDIARIES - WITH LOSS OF CONTROL

The Company and CHT each had held 50% share of Huada, respectively. In March 2012, Huada held a stockholders' meeting and re-elected its directors and supervisors. As a result, the investment type of the Company was changed to joint venture and the Company continued to account for this investment by the equity method. For details about the disposal of subsidiaries, please refer to Note 30 to the consolidated financial statements for the year ended December 31, 2013.

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

a. Financial instruments not carried at fair value

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

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

b. Fair value measurements recognized in the parent company only balance sheet.

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

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

December 31, 2013

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$-	$162,297	$-	$162,297
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$239	$-	$-	$239

December 31, 2012

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

January 1, 2012

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

There were no transfers between Level 1 and 2 for the years ended December 31, 2013 and 2012.

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed corporate bonds). Where such prices were not available, valuation techniques were applied. The estimates and assumptions used by the Company are consistent with those that market participants would use in setting a price for the financial instrument;
- The fair values of derivative instruments were calculated using quoted prices. Where such prices were not available, a discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. The estimates and assumptions used by the Company were consistent with those that market participants would use in setting a price for the financial instrument;

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

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

Categories of Financial Instruments

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets			
FVTPL - Held for trading	$162,297	$6,950	$256,868
Derivative instruments in designated hedge accounting relationships	-	204,519	-
Held-to-maturity investments	-	101,459	204,597
Loans and receivables (Note 1)	64,495,221	95,383,612	145,726,280
Available-for-sale financial assets (Note 2)	516,100	516,058	516,140
Financial liabilities			
Amortized cost (Note 3)	82,147,976	106,611,905	120,405,571

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other current financial assets, note and trade receivables, other receivables and refundable deposits.

Note 2: The balances included available-for-sale financial assets and the carrying amount of available-for-sale financial assets measured at cost.

Note 3: 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 Department of Financial and Accounting provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through analyzing the exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The Company 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, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits 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 Department of Financial and Accounting reported 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 has 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 at the end of the reporting period please refer to Note 37.

Sensitivity analysis

The Company was mainly exposed to the Currency United Stated 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 includes only outstanding foreign currency denominated monetary items and the forward exchange contracts were entered into cash flow hedges. A positive number below indicates an increase in profit before income tax or equity where the NTD strengthens 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be a comparable impact on the profit before income tax or equity, and the balances below would be negative.

	Profit or Loss (1)	Equity(2)
For the year ended December 31, 2013		
USD	$54,355	$-
EUR	(18,430)	-
RMB	(24,673)	-
JPY	3,377	-
For the year ended December 31, 2012		
USD	52,628	(27,776)
EUR	(4,805)	-
RMB	(34,158)	-
JPY	(1,519)	25,711

1) This was mainly attributable to the exposure outstanding on each currency receivables and payables, which were not hedged at the end of the reporting period.

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

b. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As of December 31, 2013, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and the carrying amount of financial assets reported on balance sheet. 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 are disclosed in the Note 13.

c. Liquidity risk

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

1) Liquidity risk tables

The following tables detail the Company's remaining contractual maturity for its derivative financial liabilities and non-derivative financial liabilities with agreed repayment periods. The tables 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. The tables included both interest and principal cash flows.

December 31, 2013

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$15,323,772	$33,086,970	$-
Other payables	11,714,522	21,848,331	-
Other current liabilities	74,952	98,269	-
Guarantee deposits received	-	-	1,160
	$27,113,246	$55,033,570	$1,160

December 31, 2012

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$26,454,819	$47,675,750	$-
Other payables	14,561,245	17,650,018	-
Other current liabilities	39,741	230,332	-
	$41,055,805	$65,556,100	$-

January 1, 2012

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$26,339,229	$50,155,376	$-
Other payables	36,613,769	6,907,684	-
Other current liabilities	75,779	313,106	-
Guarantee deposits received	-	-	628
	$63,028,777	$57,376,166	$628

2) Bank credit limit

	December 31, 2013	December 31, 2012	January 1, 2012
Unsecured bank general credit limit			
Amount used	$1,697,088	$1,572,461	$1,892,407
Amount unused	45,647,802	45,104,312	10,899,663
	$47,344,890	$46,676,773	$12,792,070

33. RELATED-PARTY TRANSACTIONS

Sales

	For the Year Ended December 31	
	2013	2012
Subsidiaries	$78,299,263	$104,172,450
Key management personnel	2,002	-
Other related parties - Employees' Welfare Committee	23,454	220,037
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	12,439	2,242,971
	$78,337,158	$106,635,458

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Subsidiaries	$13,202,268	$19,247,080	$32,976,796
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	1,309	221,050	473
	$13,203,577	$19,468,130	$32,977,269

No guarantees had been given or received for trade receivables from related parties. No bad debt expense had been recognized for the years ended December 31, 2013 and 2012 for the amounts owed by related parties.

Purchase and Outsourcing Expense

	For the Year Ended December 31	
	2013	2012
Purchase		
Subsidiaries	$3,065,788	$1,710,137
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	62,030	63,675
	$3,127,818	$1,773,812
Outsourcing expense		
Subsidiaries	$9,350,345	$12,672,806

Purchase prices for related parties and third parties were similar. Outsourcing expenses were calculated based on contracted processing rate.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Subsidiaries	$5,613,716	$2,883,716	$3,639,231
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	8,303	19,269	-
	$5,622,019	$2,902,985	$3,639,231

The outstanding of trade payables to related parties are unsecured and will be settled in cash.

Loans to Related Parties

	December 31, 2013	December 31, 2012	January 1, 2012
Associates			
Principal	$-	$6,554,025	$-
Interest receivables	-	46,068	-
	$-	$6,600,093	$-

On July 19, 2012, the Company's board of directors passed a resolution to offer US$225,000 thousand short-term loan to Beats Electronics, LLC to support the transition of Beats Electronics, LLC into a product company. This loan was secured by all the assets of Beats Electronics, LLC. Term loan must be repaid in full no later than one year from signing date of loan agreement and the repayment can be made in full at any time during the term of the loan or at the repayment date. The calculation of interest is based on LIBOR plus 1.5%, 3.5%, 5.5% and 7.5% for the first quarter to the fourth quarter, respectively. The principal and interest were received in full in June 2013. The interest income amounted to NT$211,139 thousand and NT$82,027 thousand for the years ended December 31, 2013 and 2012, respectively.

Compensation of Key Management Personnel

	For the Year Ended December 31	
	2013	2012
Short-term benefits	$387,902	$480,894
Post-employment benefits	2,039	8,497
Other long-term benefits	-	-
Termination benefits	165	-
Share-based payments	4,332	-
	$394,438	$489,391

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

Acquisition of Property, Plant and Equipment

	For the Year Ended December 31	
	2013	2012
Subsidiaries	$175,444	$23,421
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	3,238	61,155
	$178,682	$84,576

As of December 31, 2013 and 2012, the unpaid amounts were NT$175,931 and NT$25,548 thousand, respectively.

Other Related-party Transactions

a. To enhance product diversity, the Company entered into a trademark and technology license agreement with subsidiaries, associate of subsidiary and other related parties. The royalty expense was NT$222,760 thousand and NT$292,321 thousand for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2012 the amounts of unpaid royalty was NT$130,960 thousand. As of December 31, 2013 and 2012 the amounts of prepaid royalty were NT$55,311 thousand and NT$28,999 thousand, respectively.

b. Subsidiaries and other related parties assisted the Company to expand business overseas and render design, research and development support, consulting services and after-sales services. The Company recognized related expenses amounting to NT$9,815,920 thousand and NT$14,359,973 thousand for the years ended December 31, 2013 and 2012, respectively. The unpaid amount were NT$2,440,229 thousand, NT$2,196,174 thousand and NT$3,459,293 thousand as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively.

c. The Company leased staff dormitory owned by a related party under an operating lease agreement. The term of the lease agreement is from April 2012 to March 2015 and the rental payment is determined at the prevailing rates in the surrounding area. The Company recognized and paid rental expenses amounting to NT$5,209 thousand for the years ended December 31, 2013 and 2012, each.

d. In 2013, the Company increased investment of NT$1,048,593 thousand in HTC Investment One (BVI) Corporation and retained 100% ownership. In 2012, the Company increased investment of NT$1,181,915 thousand in H.T.C. (B.V.I.) Corp., NT$3,403,451 thousand in High Tech Computer Asia Pacific Pte. Ltd. and NT$956,002 thousand in HTC Investment One (BVI) Corporation, respectively. After these investments, the Company retained 100% ownership in each subsidiary.

34. PLEDGED ASSETS

To protect the rights and interests of its employees, in September 2012, the Company deposited unpaid employee bonus in a new trust account. The trust account, which is under other current financial assets, had amounted to NT$2,359,041 thousand and NT$3,645,820 thousand as of December 31, 2013 and 2012, respectively.

As of January 1, 2012 the Company had provided time deposits of NT$63,900 thousand had been classified as other current financial assets, respectively, as part of the requirements for the Company to get a certificate from the National Tax Administration of the Northern Taiwan Province stating that it had no pending income tax.

35. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

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

In March 2012, Washington Court granted on the Company's summary judgment motion and ruled on non-infringement of two of patents-in-suit. 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.

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

b. From May 2011 onwards, Nokia Corporation ("Nokia") and the Company filed patent infringement actions against the other respectively in the U.S. International TradeCommission ("ITC"), U.S. District Court for the District of Delaware, German district courts, and English High Court. On February 8, 2014, the two companies reached a settlement that included the dismissal of all current lawsuits and a patent and technology collaboration agreement. The Company will make payments to Nokia and the collaboration will involve the Company's LTE patent portfolio, further strengthening Nokia's licensing offering. The companies will also explore future technology collaboration opportunities.

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

In May 2010, Flashpoint filed the first ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. In November 2011, the ITC Committee issued its Final Determination and ruled that the Company does not infringe patents owned by Flashpoint.

In May 2012, Flashpoint filed another ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. In September 2013, the ITC Administrative Law Judge made an Initial Determination that favors the Company on two of the three patents in suit. On the matter of the third patent, only two End-of-Life HTC device models are potentially impacted. The Company believes the Committee will made a final determination that favors the Company; the final determination will be granted in March 14, 2014. Meanwhile, the Company has also worked on design around solution for all future products to ensure no business disruption in the US market.

d. 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

In February 2014, the Company and Nokia Corporation reached a settlement to dismiss all pending patent litigations between them and entered into a patent technology collaboration agreement. For more details, please refer to Note 35.

The Company had repurchased company shares from the open market for transferring to employees and some of them had not been transferred before the expiry time. The Board of Directors approved the retirement of 1,998 thousand shares of treasury stock on February 10, 2014.

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

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

	December 31, 2013		December 31, 2012		January 1, 2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets						
Monetary items						
USD	$1,520,256	29.93	$2,687,730	29.13	$3,018,210	30.28
EUR	286,200	41.27	301,870	38.42	485,148	39.19
JPY	3,007,500	0.2851	9,903,351	0.3383	150,186	0.3906
RMB	1,337,371	4.94	1,432,210	4.68	1,126,526	4.77
Investments accounted for by the equity method						
USD	376,021	29.93	409,395	29.13	412,799	30.28
SGD	1,313,548	23.67	1,191,511	23.85	996,626	23.32
Financial liabilities						
Monetary items						
USD	1,899,417	29.93	3,122,686	29.13	3,266,412	30.28
EUR	254,630	41.27	302,928	38.42	590,266	39.19
JPY	4,834,941	0.2851	17,002,616	0.3383	434,508	0.3906
RMB	843,809	4.94	702,614	4.68	678,211	4.77

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	Contract Term	Description
Apple, Inc.	November 11, 2012 - November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalty payable as prescribed.
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 - December 31, 2016 January 1, 2014 - December 31, 2018	Authorization to use wireless technology, like GSM; royalty payment based on agreement. 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.

39. FIRST-TIME ADOPTION OF THE REGULATIONS

The Company's date of transition to the Regulations was January 1, 2012. The impact of the transition to the Regulations on the Company's balance sheets and statements of comprehensive income is stated as follows:

a. Reconciliation of balance sheet as of January 1, 2012

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		Note
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	
Assets					Assets	
Current assets					Current assets	
Cash and cash equivalents	$78,872,320	$-	$(25,474,750)	$53,397,570	Cash and cash equivalents	1)
Financial assets at fair value through profit or loss - current	256,868	-	-	256,868	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	736,031	-	-	736,031	Available-for-sale financial assets - current	
Restricted assets - current	63,900	-	25,474,750	25,538,650	Other financial assets - current	1)
Note and trade receivables, net	32,039,776	-	-	32,039,776	Note and trade receivables, net	
Trade receivables - related parties	32,977,269	-	-	32,977,269	Trade receivables - related parties	
Other financial assets - current	1,615,044	-	-	1,615,044	Other receivables	
Other receivables - related parties	79,077	-	-	79,077	Other receivables - related parties	
Inventories	25,389,320	-	-	25,389,320	Inventories	
Prepayments	6,473,372	-	-	6,473,372	Prepayments	
Current assets					Current assets	
Deferred income tax assets - current	1,517,302	-	(1,517,302)	-	-	2)
Other current assets	248,085	-	-	248,085	Other current assets	
Total current assets	180,268,364	-	(1,517,302)	178,751,062	Total current assets	
Non-current assets					Non-current assets	
Held-to-maturity financial assets - non-current	204,597	-	-	204,597	Held-to-maturity financial assets - non-current	
Available-for-sale financial assets - non-current	279	-	-	279	Available-for-sale financial assets - non-current	
Financial assets measured at cost - non-current	515,861	-	-	515,861	Financial assets measured at cost - non-current	
Investments accounted for using equity method	37,057,048	(593)	(1,151,531)	35,904,924	Investments accounted for using equity method	4), 11)
Properties	15,422,345	-	(103,745)	15,318,600	Property, plant and equipment	7), 8)
Intangible assets	2,120,948	-	120,593	2,241,541	Intangible assets	7)
Refundable deposits	78,894	-	-	78,894	Refundable deposits	
Deferred charges	120,593	-	(120,593)	-	-	7)
Deferred income tax assets - non-current	3,596,520	58,000	1,704,771	5,359,291	Deferred tax assets	2), 3)
Prepaid pension cost - non-current	183,827	(82,801)	-	101,026	Prepaid pension cost - non-current	4)
Other non-current assets	8,541,647	-	103,745	8,645,392	Other non-current assets	7), 8)
Total non-current assets	67,842,559	(25,394)	553,240	68,370,405	Total non-current assets	
Total	$248,110,923	$(25,394)	$(964,062)	$247,121,467	Total	

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		Note
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	
Liabilities and stockholders' equity					Liabilities and stockholders' equity	
Current liabilities					Current liabilities	
Note and trade payables	$72,855,374	$-	$-	$72,855,374	Note and trade payables	
Trade payables - related parties	3,639,231	-	-	3,639,231	Trade payables - related parties	
Other payables	43,422,132	99,321	-	43,521,453	Other payables	6)
Income tax payable	9,653,090	-	-	9,653,090	Current tax liabilities	
-	-	-	14,808,145	14,808,145	Provisions - current	5)
Other current liabilities	17,113,872	-	(15,959,676)	1,154,196	Other current liabilities	5), 11)
Total current liabilities	146,683,699	99,321	(1,151,531)	145,631,489	Total current liabilities	
Non-current liabilities					Non-current liabilities	
-	-	-	187,469	187,469	Deferred tax liabilities	2)
Guarantee deposits received	628	-	-	628	Guarantee deposits received	
Total non-current liabilities	628	-	187,469	188,097	Total non-current liabilities	
Total liabilities	146,684,327	99,321	(964,062)	145,819,586	Total liabilities	
Stockholders' equity					Equity	
Common stock	8,520,521	-	-	8,520,521	Common stock	
Capital surplus	16,619,594	(18,037)	-	16,601,557	Capital surplus	9)
Retained earnings	86,616,845	(74,837)	-	86,542,008	Retained earnings	3), 4), 6), 9), 10)
Other equity					Other equity	
Cumulative translation adjustments	32,134	(32,134)	-	-	Exchange differences on translating foreign operation	10)
Net losses not recognized as pension cost	(293)	293	-	-	-	4)
Unrealized gain on available-for-sale financial assets	2,939	-	-	2,939	Unrealized gain on available-for-sale financial assets	
Treasury shares	(10,365,144)	-	-	(10,365,144)	Treasury shares	
Total equity	101,426,596	(124,715)	-	101,301,881	Total equity	
Total	$248,110,923	$(25,394)	$(964,062)	$247,121,467	Total	

(Concluded)

b. Reconciliation of balance sheet as of December 31, 2012

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		Note
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	
Assets					Assets	
Current assets					Current assets	
Cash and cash equivalents	$44,506,829	$-	$(1,960,900)	$42,545,929	Cash and cash equivalents	1)
Financial assets at fair value through profit or loss - current	6,950	-	-	6,950	Financial assets at fair value through profit or loss - current	
Held-to-maturity financial assets - current	101,459	-	-	101,459	Available-for-sale financial assets - current	
Derivative financial assets for hedging - current	204,519	-	-	204,519	Derivative financial assets for hedging - current	
Restricted assets - current	3,645,820	-	1,960,900	5,606,720	Other financial assets - current	1)
Note and trade receivables, net	19,743,763	-	-	19,743,763	Note and trade receivables, net	
Trade receivables - related parties	19,468,130	-	-	19,468,130	Trade receivables - related parties	
Other financial assets - current	1,300,399	-	-	1,300,399	Other receivables	
Other receivables - related parties	6,633,724	-	-	6,633,724	Other receivables - related parties	
Inventories	20,521,967	-	-	20,521,967	Inventories	
Prepayments	4,154,949	-	-	4,154,949	Prepayments	
Deferred income tax assets - current	1,948,496	-	(1,948,496)	-	-	2)
Other current assets	34,137	-	-	34,137	Other current assets	
Total current assets	122,271,142	-	(1,948,496)	120,322,646	Total current assets	
Non-current assets					Non-current assets	
Available-for-sale financial assets - non-current	197	-	-	197	Available-for-sale financial assets - non-current	
Financial assets measured at cost - non-current	515,861	-	-	515,861	Financial assets measured at cost - non-current	
Investments accounted for using equity method	42,136,096	(484)	(2,354,363)	39,781,249	Investments accounted for using equity method	
Properties	19,935,586	-	(208,750)	19,726,836	Property, plant and equipment	7), 8)
Intangible assets	1,625,340	-	91,810	1,717,150	Intangible assets	7)
Refundable deposits	84,947	-	-	84,947	Refundable deposits	
Deferred charges	91,810	-	(91,810)	-	-	7)
Deferred income tax assets - non-current	4,362,785	83,903	2,099,030	6,545,718	Deferred tax assets	2), 3), 4)
Prepaid pension cost - non-current	206,011	(86,489)	-	119,522	Prepaid pension cost - non-current	4)
Other non-current assets	7,956,963	-	208,750	8,165,713	Other non-current assets	7), 8)
Total non-current assets	76,915,596	(3,070)	(255,333)	76,657,193	Total non-current assets	
Total	$199,186,738	$(3,070)	$(2,203,829)	$196,979,839	Total	

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		Note
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	
Liabilities and stockholders' equity					Liabilities and stockholders' equity	
Current liabilities					Current liabilities	
Note and trade payables	$71,227,584	$-	$-	$71,227,584	Note and trade payables	
Trade payables - related parties	2,902,985	-	-	2,902,985	Trade payables - related parties	
Other payables	32,117,812	93,451	-	32,211,263	Other payables	6)
Income tax payable	1,424,006	-	-	1,424,006	Current tax liabilities	
Provisions - current	-	-	7,603,717	7,603,717	Provisions - current	5)
Other current liabilities	11,145,136	-	(9,958,080)	1,187,056	Other current liabilities	5), 11)
Total current liabilities	118,817,523	93,451	(2,354,363)	116,556,611	Total current liabilities	
Non-current liabilities					Non-current liabilities	
-	-	-	150,534	150,534	Deferred tax liabilities	2)
Total liabilities	118,817,523	93,451	(2,203,829)	116,707,145	Total liabilities	
Stockholders' equity					Equity	
Common stock	8,520,521	-	-	8,520,521	Common stock	
Capital surplus	16,619,594	(18,037)	-	16,601,557	Capital surplus	
Retained earnings	70,148,728	(46,697)	-	70,102,031	Retained earnings	3), 4), 6), 9), 10)
Other equity					Other equity	
Cumulative translation adjustments	(1,057,559)	(32,134)	-	(1,089,693)	Exchange differences on translating foreign operation	10)
Net losses not recognized as pension cost	(347)	347	-	-	-	4)
Unrealized gain on available-for-sale financial assets	9,716	-	-	9,716	Unrealized gain on available-for-sale financial assets	
Cash flow hedge	194,052	-	-	194,052	Cash flow hedge	
Treasury shares	(14,065,490)	-	-	(14,065,490)	Treasury shares	
Total equity	80,369,215	(96,521)	-	80,272,694	Total equity	
Total	$199,186,738	$(3,070)	$(2,203,829)	$196,979,839	Total	

(Concluded)

c. Reconciliation of statement of comprehensive income for the year ended December 31, 2012

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		Note
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	
Revenues	$270,701,687	$-	$-	$270,701,687	Revenues	
Cost of revenues	213,712,615	(5,721)	-	213,706,894	Cost of revenues	4), 6)
Gross profit	56,989,072	5,721	-	56,994,793	Gross profit	
Unrealized intercompany gains	(2,354,363)	-	-	(2,354,363)	Unrealized gains	
Realized intercompany gains	1,151,531	-	-	1,151,531	Realized gains	
Realized gross profit	55,786,240	5,721	-	55,791,961	Realized gross profit	
Operating expenses					Operating expenses	
Selling and marketing	21,721,715	(5,348)	-	21,716,367	Selling and marketing	4), 6)
General and administrative	5,521,252	386	-	5,521,638	General and administrative	4), 6)
Research and development	13,780,378	3,191	-	13,783,569	Research and development	4), 6)
Total operating expenses	41,023,345	(1,771)	-	41,021,574		
Operating profit	14,762,895	7,492	-	14,770,387	Operating profit	
Non-operating income and expenses	2,162,208	115	-	2,162,323	Non-operating income and expenses	4)
Profit before income tax	16,925,103	7,607	-	16,932,710	Profit before income tax	
Income tax	144,135	(25,000)	-	119,135	Income tax	3)
Profit for the period	$16,780,968	$32,607	$-	16,813,575	Profit for the period	
				(1,089,693)	Exchange differences on translating foreign operation	
				6,777	Unrealized gain on available-for-sale financial assets	
				194,052	Cash flow hedge	
				(5,311)	Actuarial gains on defined benefit plan	4)
				(59)	Share of other comprehensive income of subsidiaries, associates and joint ventures	
				903	Income tax relating to components of other comprehensive income	4)
				(893,331)	Other comprehensive income and loss for the period, net of income tax	
				$15,920,244	Total comprehensive income	

d. Exemptions

Except for optional exemptions and mandatory exceptions to retrospective application provided under the Regulations, the Company retrospectively applied the Regulations to prepare its opening balance sheet at the date of transition, January 1, 2012. The major optional exemptions the Company elected are summarized as follows:

1) Investments in subsidiaries, associates and joint ventures
The Company elected to measure the investments in subsidiaries, associates and joint ventures acquired before the date of transition, at the same carrying amount as recognized under ROC GAAP as of December 31, 2011.

2) Business combinations
The Company elected not to apply IFRS 3 - Business Combination retrospectively to business combinations that occurred before the date of transition. Thus, in the opening balance sheet, the amount of goodwill generated from past business combinations remains the same as that shown under ROC GAAP as of December 31, 2011.

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

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

5) Employee benefits
The Company elected to recognize all cumulative actuarial gains and losses on employee benefits in accumulated earnings as of the date of transition.

6) Accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation.
The Company elected to reset the accumulated balances of exchange differences resulting fromtranslating the financial statements of a foreign operation to zero at the date of transition, and the reversal has been used to offset accumulated earnings as of December 31, 2011. Thus, the gain or loss on any subsequent disposal of foreign operations should exclude translation differences that arose before the date of transition.

e. Explanations of significant reconciling items in the transition to Regulations
Material differences between the accounting policies under ROC GAAP and the accounting policies adopted under Regulations were as follows:

1) Under ROC GAAP, the term "cash" used in the financial statements includes cash on hand, demand deposits, check deposits, time deposits that are cancellable but without any loss of principal and negotiable certificates of deposit that are readily salable without any loss of principal. However, under the Regulations, cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition. Some certificates of deposit the Company held had maturity of more than 3 months from the date of investment. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$25,474,750 thousand and NT$1,960,900 thousand, respectively, in "cash and cash equivalents" and increases by the same amounts in "other current financial assets."

2) Under ROC GAAP, a deferred income tax asset or liability should be classified as current or noncurrent in accordance with the classification of the related asset or liability for financial

reporting. However, a deferred income tax assetor liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent on the basis of the expected length of time before it is realized or settled. By contrast, under the Regulations, a deferred income tax asset or liability is always classified as noncurrent. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$1,517,302 thousand and NT$1,948,496 thousand, respectively, in "deferred income tax asset - current" and increases by the same amounts in "deferred income tax assets - non-current."

Under ROC GAAP, deferred tax assets are recognized in full but are reduced by a valuation allowance account if there is evidence showing that a portion of or all the deferred tax assets will not be realized. However, under the Regulations, an entity recognizes only to the extent that it is highly probable that taxable profits will be available against which the deferred tax assets can be used; thus, a valuation allowance account is not used. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$10,962,549 thousand and NT$6,265,293 thousand, respectively, in "deferred income tax assets" and in the valuation allowance account. Also, as of January 1 and December 31, 2012, the reclassification adjustment resulted in increases of NT$187,469 thousand and NT$150,534 thousand, respectively, in "deferred income tax assets" and "deferred income tax liabilities".

3) Under ROC GAAP, deferred income tax assets or liabilities from intergroup sales are recognized for the change in tax basis using the tax rate of ROC. However, under the Regulations, the buyer's tax rates are used instead. Thus, the Regulations adjustment as of January 1, 2012 resulted in increases of NT$58,000 thousand each in "deferred income tax assets" and "accumulated earnings." In addition, the evaluation adjustment made on December 31, 2012 resulted in increases of NT$83,000 thousand in "deferred income tax assets" and in "accumulated earnings" and a decrease in "income tax" by NT$25,000 thousand.

4) Under the Regulations, the Company elected to recognize all cumulative actuarial gains and of NT$83,687 thousand in "accumulated earnings" due to decreases in "investments accounted for using equity method" by NT$593 thousand, "defined benefit assets" by NT$82,801 thousand and "net loss not recognized as pension cost" by NT$293 thousand.

   As of December 31, 2012, the IFRS adjustment resulted in a decrease in "accumulated earnings" by NT$86,417 thousand due to decreases in "Investments accounted for using equity method" by NT$484 thousand, "defined benefit assets" by NT$86,489 thousand and "net loss not recognized as pension cost" by NT$347 thousand and increase in "deferred income tax assets" by NT$903 thousand. In addition, this adjustment resulted in decreases in "cost of revenues" by NT$422 thousand, "selling and marketing expenses" by NT$505 thousand, "general and administrative expenses" by NT$171 thousand, "research and developing expenses" by NT$524 thousand and an increase in "share of the profit or loss of subsidiaries, associates and joint ventures" by NT$115 thousand.

5) Under ROC GAAP, if an obligation is probable (i.e., likely to occur) and the amount could be reasonably estimated, it is a contingent liability and should be accrued for, but under which account is not clearly defined. However, under the Regulations, it defines "provisions" as obligations that are probable (i.e., more likely than not) and the amount could be reasonably estimated. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$14,808,145 thousand and NT$7,603,717 thousand, respectively, in "other current liabilities" and increases by the same amounts in "provisions - current."

6) Accumulated compensated absences are not addressed in existing ROC GAAP; thus, the Company has not recognized the expected cost of employee benefits in the form of accumulated compensated absences at the end of reporting periods. However, under the Regulations, when the employees render services that increase their entitlement to future compensated absences, an entity should recognize the expected cost of employee benefits at the end of reporting periods. Thus, as of January 1, 2012 resulted in an increase in "accrued expenses" by NT$99,321 thousand and a decrease by thesame amount in "accumulated earnings".

   In addition, the evaluation adjustment made on December 31, 2012 resulted in (a) a decrease in "accumulated earnings" by NT$93,451 thousand due to an increase of "accrued expenses"; (b) decreases in "cost of revenues" by NT$5,299 thousand and "selling and marketing expenses" by NT$4,843 thousand and (c) increases in "general and administrative expenses" by NT$557 thousand and "research and developing expenses" by NT$3,715 thousand.

7) Under ROC GAAP, deferred charges are classified under other assets. Transition to Regulations, deferred charges are classified under "other intangible assets" according to the nature. Thus, as of January 1 and December 31, 2012, the Company reclassified NT$120,593 thousand and NT$91,810 thousand, respectively, of "deferred charges" to "other intangible assets."

8) The Company purchased fixed assets and made prepayments, pursuant to the "Rules Governing the Preparation of Financial Statements by Securities Issuers." Such prepayments are presented as "properties". Transition to Regulations, the prepayments are classified under "other assets - other". Thus, as of January 1 and December 31, 2012, the Company reclassified NT$103,745 thousand and NT$208,750 thousand, respectively, of "property, plant and equipment" to "other assets - other."

9) Under ROC GAAP, if an investee issues new shares and an investor does not purchase new shares proportionately, capital surplus and the long-term equity investment accounts should be adjusted for the change in the investor's holding percentage and interest in the investee's net assets. By contrast, under the Regulations, a reduction of investor's ownership interest that results in loss of significant influence on or control over an investee would be treated as a deemed disposal, with the related gain or loss recognized in profit or loss. An entity may elect not to adjust the difference retrospectively, and the Companyelected to use the exemption from retrospective application. The Regulations adjustment resulted in a decrease of capital surplus - long-term equity investments of NT$18,037 thousand and a corresponding increase of accumulated earnings by related rules.

10) The Company elected to reset the accumulated balances of exchange differences resulting from translating foreign operation to zero at the date of transition, and the reversal has been used to adjust accumulated earnings as of January 1, 2012. The gain or loss on any subsequent disposals of any foreign operations should exclude accumulated balances of exchange differences resulting from translating foreign operation that arose before the date of transition. Therefore, the Regulations adjustment resulted in a decrease in accumulated balances of exchange differences resulting from translating foreign operation and an increase in accumulated earnings by NT$32,134 thousand each.

11) Under ROC GAAP, for the downstream transactions between an investor company and an investee company, the elimination of unrealized gains from intercompany transactions was shown as a deferred credit under liabilities. Under Regulations, the elimination of unrealized

gains from intercompany transactions should be recognized as a reduction of investments accounted for using the equity method. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$1,151,531 thousand and NT$2,354,363 thousand, respectively, in "investments accounted for using the equity method" and "other current liabilities".

f. Material adjustment to statements of cash flows

Under ROC GAAP, using the indirect method, the interests and dividends received and interests paid were usually classified as operating cash flows, and dividends paid were usually classified as financial cash flows and supplemental cash flows information is provided for interests paid. However, under IFRS 7, cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period either as operating, investing or financing activities. Thus, for the year ended December 31, 2012, the cash flows of interests received in the amount of NT$475,053 thousand was disclosed separately.

As of January 1 and December 31, 2012, time deposits with original maturities more than three months amounted to NT$25,474,750 thousand and NT$1,960,900 thousand, respectively, and not to be classified as "cash and cash equivalents" in accordance with Regulations since they are held for investment purpose. For more details of this adjustment, please refer to Note 39 section e. 1).

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

5.INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders

HTC Corporation

We have audited the accompanying consolidated balance sheets of HTC Corporation and its subsidiaries (collectively referred to as the "Company") as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2013, December 31, 2012 and January 1, 2012, and their consolidated financial performance and their consolidated cash flows for the years ended 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of HTC Corporation as of and for the years ended December 31, 2013 and 2012 on which we have issued an unqualified report.

February 28, 2014

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 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 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 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 the Republic of China were not translated into English.

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013 Amount	%	December 31, 2012 Amount	%	January 1, 2012 Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$53,298,941	31	$50,966,143	25	$62,026,758	24
Financial assets at fair value through profit or loss - current (Notes 7 and 32)	162,297	-	6,950	-	256,868	-
Available-for-sale financial assets - current (Notes 8 and 32)	-	-	37,902	-	736,031	-
Held-to-maturity financial assets - current (Notes 9 and 32)	-	-	101,459	-	-	-
Derivative financial assets for hedging - current (Notes 10 and 32)	-	-	204,519	-	-	-
Note and trade receivables, net (Notes 13 and 33)	23,371,172	14	41,253,826	20	64,719,791	25
Other receivables (Note 13)	2,137,653	1	1,524,269	1	1,947,665	1
Other receivables - related parties (Notes 13 and 33)	-	-	6,600,093	3	966	-
Current tax assets (Note 26)	238,085	-	61,532	-	263,116	-
Inventories (Note 14)	23,599,558	14	23,809,377	12	28,430,590	11
Prepayments (Note 15)	5,803,744	3	4,965,814	2	6,507,516	3
Other current financial assets (Notes 6, 12 and 34)	2,771,023	2	6,561,444	3	25,543,450	10
Other current assets	124,808	-	39,097	-	249,644	-
Total current assets	111,507,281	65	136,132,425	66	190,682,395	74
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 8 and 32)	239	-	197	-	279	-
Held-to-maturity financial assets - non-current (Notes 9 and 32)	-	-	-	-	204,597	-
Financial assets measured at cost - non-current (Notes 11 and 32)	4,603,061	2	4,304,907	2	3,408,654	1
Investments accounted for using equity method (Notes 16 and 33)	227,504	-	5,892,168	3	71,732	-
Property, plant and equipment (Notes 17 and 33)	25,561,399	15	25,990,766	12	21,715,633	9
Intangible assets (Note 18)	8,664,066	5	11,683,170	6	22,767,479	9
Deferred tax assets (Note 26)	8,665,235	5	8,689,842	4	6,319,978	3
Refundable deposits (Note 32)	352,894	-	190,142	-	185,306	-
Long-term receivables (Notes 13 and 30)	1,182,393	1	4,369,350	2	-	-
Prepaid pension cost - non-current (Note 22)	125,715	-	119,273	-	100,651	-
Other non-current assets (Note 15)	11,739,400	7	9,876,752	5	10,655,126	4
Total non-current assets	61,121,906	35	71,116,567	34	65,429,435	26
TOTAL	$172,629,187	100	$207,248,992	100	$256,111,830	100

(Continued)

LIABILITIES AND EQUITY	December 31, 2013 Amount	%	December 31, 2012 Amount	%	January 1, 2012 Amount	%
CURRENT LIABILITIES						
Note and trade payables (Notes 19 and 33)	$46,275,851	27	$73,618,197	36	$78,473,130	31
Other payables (Notes 20 and 33)	38,032,999	22	39,267,173	19	47,595,791	18
Current tax liabilities (Note 26)	1,040,128	1	2,713,373	1	10,570,682	4
Provisions - current (Note 21)	8,208,885	5	8,881,514	4	15,133,275	6
Other current liabilities (Note 20)	956,127	-	1,788,106	1	1,661,140	1
Total current liabilities	94,513,990	55	126,268,363	61	153,434,018	60
NON-CURRENT LIABILITIES						
Deferred tax liabilities (Note 26)	151,122	-	647,936	-	340,261	-
Guarantee deposits received (Note 32)	256,415	-	59,999	-	42,946	-
Total non-current liabilities	407,537	-	707,935	-	383,207	-
Total liabilities	94,921,527	55	126,976,298	61	153,817,225	60
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 23)						
Share capital - common stock	8,423,505	5	8,520,521	4	8,520,521	3
Capital surplus	15,360,307	9	16,601,557	8	16,601,557	7
Retained earnings						
Legal reserve	18,149,350	11	16,471,254	8	10,273,674	4
Special reserve	854,138	-	-	-	580,856	-
Accumulated earnings	47,282,820	27	53,630,777	26	75,687,478	30
Total retained earnings	66,286,308	38	70,102,031	34	86,542,008	34
Other equity	557,698	-	(885,925)	-	2,939	-
Treasury shares	(12,920,158)	(7)	(14,065,490)	(7)	(10,365,144)	(4)
Total equity attributable to owners of the parent	77,707,660	45	80,272,694	39	101,301,881	40
NON-CONTROLLING INTEREST	-	-	-	-	992,724	-
Total equity	77,707,660	45	80,272,694	39	102,294,605	40
TOTAL	$172,629,187	100	$207,248,992	100	$256,111,830	100

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
REVENUES (Notes 24 and 33)	$203,402,648	100	$289,020,175	100
COST OF REVENUES (Notes 14, 25 and 33)	161,131,895	79	216,089,326	75
GROSS PROFIT	42,270,753	21	72,930,849	25
OPERATING EXPENSES (Notes 25 and 33)				
Selling and marketing	26,467,742	13	32,382,563	11
General and administrative	7,230,081	4	6,227,833	2
Research and development	12,543,452	6	15,493,139	5
Total operating expenses	46,241,275	23	54,103,535	18
OPERATING (LOSS) PROFIT	(3,970,522)	(2)	18,827,314	7
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 25)	1,164,948	1	1,168,532	-
Other gain and loss (Note 25)	2,421,266	1	(923,544)	-
Finance costs	(8,405)	-	(1,715)	-
Share of the profit or loss of associates and joint ventures (Note 16)	197,069	-	387,478	-
Total non-operating income and expenses	3,774,878	2	630,751	-
(LOSS) PROFIT BEFORE INCOME TAX	(195,644)	-	19,458,065	7
INCOME TAX (Note 26)	1,128,141	1	1,836,272	1
(LOSS) PROFIT FOR THE YEAR	(1,323,785)	(1)	17,621,793	6

(Continued)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME AND LOSS				
Exchange differences on translating foreign operations (Note 23)	$1,649,412	$1	$(1,089,693)	-
Unrealized (loss) gain on available-for-sale financial assets (Note 23)	(11,738)	-	6,777	-
Cash flow hedge (Notes 10 and 23)	(194,052)	-	194,052	-
Actuarial losses arising from defined benefit plans (Note 22)	(17,106)	-	(5,382)	-
Income tax relating to the components of other comprehensive income (Notes 22 and 26)	1,794	-	915	-
Other comprehensive income and loss for the year, net of income tax	1,428,310	1	(893,331)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$104,525	-	$16,728,462	6
ALLOCATIONS OF (LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$(1,323,785)	(1)	$16,813,575	6
Non-controlling interest	-	-	808,218	-
	$(1,323,785)	(1)	$17,621,793	6
ALLOCATIONS OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$104,525	-	$15,920,244	6
Non-controlling interest	-	-	808,218	-
	$104,525	-	$16,728,462	6
(LOSS) EARNINGS PER SHARE (Note 27)				
Basic	$(1.60)		$20.21	
Diluted	$(1.60)		$20.12	

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent											
	Share Capital		Retained Earnings			Other Equity						
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Accumulated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedge	Treasury Shares	Total Equity Attributable to Owners of the Parent	Non-controlling Interest	Total Equity
BALANCE, JANUARY 1, 2012	$8,520,521	$16,601,557	$10,273,674	$580,856	$75,687,478	$-	$2,939	$-	$(10,365,144)	$101,301,881	$992,724	$102,294,605
Appropriation of 2011 earnings												
Legal reserve	-	-	6,197,580	-	(6,197,580)	-	-	-	-	-	-	-
Special reserve reversed	-	-	-	(580,856)	580,856	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(33,249,085)	-	-	-	-	(33,249,085)	-	(33,249,085)
Profit for the year ended December 31, 2012	-	-	-	-	16,813,575	-	-	-	-	16,813,575	808,218	17,621,793
Other comprehensive income and loss for the year ended December 31, 2012	-	-	-	-	(4,467)	(1,089,693)	6,777	194,052	-	(893,331)	-	(893,331)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(3,700,346)	(3,700,346)	-	(3,700,346)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(1,800,942)	(1,800,942)
BALANCE, DECEMBER 31, 2012	8,520,521	16,601,557	16,471,254	-	53,630,777	(1,089,693)	9,716	194,052	(14,065,490)	80,272,694	-	80,272,694
Appropriation of 2012 earnings												
Legal reserve	-	-	1,678,096	-	(1,678,096)	-	-	-	-	-	-	-
Special reserve	-	-	-	854,138	(854,138)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,662,455)	-	-	-	-	(1,662,455)	-	(1,662,455)
Loss for the year ended December 31, 2013	-	-	-	-	(1,323,785)	-	-	-	-	(1,323,785)	-	(1,323,785)
Other comprehensive income and loss for the year ended December 31, 2013	-	-	-	-	(15,313)	1,649,412	(11,737)	(194,052)	-	1,428,310	-	1,428,310
Purchase of treasury shares	-	-	-	-	-	-	-	-	(1,033,846)	(1,033,846)	-	(1,033,846)
Retirement of treasury stock	(97,016)	(1,267,992)	-	-	(814,170)	-	-	-	2,179,178	-	-	-
Share-based payments	-	26,742	-	-	-	-	-	-	-	26,742	-	26,742
BALANCE, DECEMBER 31, 2013	$8,423,505	$15,360,307	$18,149,350	$854,138	$47,282,820	$559,719	$(2,021)	$ -	$(12,920,158)	$77,707,660	$-	$77,707,660

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) profit before income tax	$(195,644)	$19,458,065
Adjustments for:		
Depreciation	2,916,699	2,463,017
Amortization	1,968,492	2,047,681
Impairment loss recognized on trade receivables	1,010,405	531,364
Finance costs	8,405	1,715
Interest income	(554,355)	(617,635)
Dividend income	(16,282)	(22,441)
Compensation cost of employee share options	26,742	-
Share of the profit or loss of associates and joint ventures	(197,069)	(387,478)
Losses on disposal of property, plant and equipment	58	6,395
Transfer of property, plant and equipment to expenses	2,995	15,098
Gain on disposal of intangible assets	(108,265)	-
Gains on sale of investments	(29,735)	(49,084)
Gain on disposal of investments accounted for using equity method	(2,637,673)	-
Impairment loss recognized on financial assets measured at cost	-	1,199,045
Impairment losses on non-financial assets	1,281,518	2,268,727
(Gain) loss on disposal of subsidiaries/ Ineffective portion of cash flow hedges	(164,969)	203,801
Changes in operating assets and liabilities		
(Increase) decrease in financial instruments held for trading	(155,347)	249,918
Decrease in note and trade receivables	16,845,574	19,353,654
(Increase) decrease in other receivables	(607,949)	408,075
Decrease in other receivables - related parties	-	966
(Increase) decrease in inventories	(207,347)	552,981
Increase in prepayments	(1,360,194)	(1,412,046)
Increase in other current assets	(96,724)	(155,932)
(Increase) decrease in other non-current assets	(1,869,090)	719,233
(Decrease) increase in note and trade payables	(27,311,669)	216,687
Decrease in other payables	(427,233)	(6,540,051)
Decrease in provisions	(672,629)	(6,251,761)
(Decrease) increase in other current liabilities	(822,489)	303,102
Cash (used in) generated from operations	(13,373,775)	34,563,096

(Continued)

	For the Years Ended December 31	
	2013	2012
Interest received	$599,071	$589,899
Interest paid	(8,405)	(1,715)
Income tax paid	(3,448,352)	(11,553,271)
Net cash (used in) generated from operating activities	(16,231,461)	23,598,009
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	56,738	829,071
Recovery of the principal amount of held-to-maturity investments	100,000	-
Payments to acquire financial assets measured at cost	(197,684)	(2,292,573)
Disposal of long-term investments accounted for using equity method	7,883,326	-
Net cash outflow on acquisition of subsidiaries	-	(173,926)
Net cash inflow (outflow) on disposal of subsidiaries	4,643,189	(647,609)
Payments for property, plant and equipment	(2,855,698)	(6,646,776)
Proceeds from disposal of property, plant and equipment	2,609	38,813
Increase in refundable deposits	(166,428)	(13,718)
Increase in other receivables - related parties	-	(6,554,025)
Decrease in other receivables - related parties	6,554,025	-
Payments for intangible assets	(223,008)	(556,581)
Disposal of intangible assets	117,380	-
Decrease in other current financial assets	3,790,421	18,964,300
Dividend received	661,896	22,441
Net cash generated from investing activities	20,366,766	2,969,417
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in guarantee deposits received	196,416	17,053
Cash dividends	(1,662,455)	(33,249,085)
Payments for treasury shares	(1,033,846)	(3,700,346)
Change in non-controlling interest	-	(1,459,370)
Net cash used in financing activities	(2,499,885)	(38,391,748)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	697,378	763,707
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,332,798	(11,060,615)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	50,966,143	62,026,758
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$53,298,941	$50,966,143

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

(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 the Republic of China to design, manufacture, assemble, process, and sell smart mobile devices and provide after-sales service.

In March 2002, HTC had its stock listed on the Taiwan Stock Exchange. On November 19, 2003, HTC listed some of its shares of stock on the Luxembourg Stock Exchange in the form of global depositary receipts.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on February 28, 2014.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

a. New, amended and revised standards and interpretations (the "New IFRSs") in issue but not yet effective

HTC and its entire controlled subsidiaries (the "Company") have not applied the International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations, and Standing Interpretations that have been issued by the IASB. On January 28, 2014, the Financial Supervisory Commission (FSC) announced the framework for the adoption of updated IFRSs version in the ROC. Under this framework, starting January 1, 2015, the previous version of IFRSs endorsed by the FSC (the 2010 IFRSs version) currently applied by companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market will be replaced by the updated IFRSs without IFRS 9 (the 2013 IFRSs version). However, as of the date that the consolidated financial statements were authorized for issue, the FSC has not endorsed the following new, amended and revised standards and interpretations issued by the IASB (the "New IFRSs") included in the 2013 IFRSs version. Furthermore, the FSC has not announced the effective date for the following New IFRSs that are not included in the 2013 IFRSs version.

The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC	Effective Date Announced by IASB (Note 1)
Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 and January 1, 2010, as appropriate
Amendment to IAS 39 "Embedded Derivatives"	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 and January 1, 2011, as appropriate
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters"	July 1, 2010
Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters"	July 1, 2011
Amendment to IFRS 1 "Government Loans"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Transfer of Financial Assets"	July 1, 2011
IFRS 10 "Consolidated Financial Statements"	January 1, 2013
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"	January 1, 2013
Amendments to IFRS 10 and IFRS 12 and IAS 27 "Investment Entities"	January 1, 2014
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendment to IAS 1 "Presentation of Other Comprehensive Income"	July 1, 2012
Amendment to IAS 12 "Deferred tax: Recovery of Underlying Assets"	January 1, 2012
IAS 19 (Revised 2011) "Employee Benefits"	January 1, 2013
IAS 27 (Revised 2011) "Separate Financial Statements"	January 1, 2013
IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"	January 1, 2013
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities"	January 1, 2014
IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine"	January 1, 2013

The New IFRSs Not Included in the 2013 IFRSs Version	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
IFRS 9 "Financial Instruments"	Effective date not determined
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	Effective date not determined
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions for which the grant date is on or after 1 July 2014; the amendment to IFRS 3 applies to business combinations for which the acquisition date is on or after 1 July 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

b. Significant impending changes in accounting policy resulted from New IFRSs in issue but not yet effective

Except for the following, the initial application of the above New IFRSs has not had any material impact on the Company's accounting policies:

1. IFRS 9 "Financial Instruments"

Recognition and measurement 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. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of reporting period. 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.

Recognition and measurement of financial liabilities

As for financial liabilities, the main changes in the classification and measurement relate to the subsequent measurement of financial liabilities designated as at fair value through profit or loss. The amount of change in the fair value of such financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income and the remaining amount of change in the fair value of that liability is presented in profit or loss, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. If the above accounting treatment would create or enlarge an accounting mismatch in profit or loss, the Group presents all gains or losses on that liability in profit or loss.

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 risk eligible for hedge accounting of non-financial items; (2) changing the way hedging 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.

Effective date

The mandatory effective date of IFRS 9, which was previously set at January 1, 2015, was removed and will be reconsidered once the standard is complete with a new impairment model and finalization of any limited amendments to classification and measurement.

2. IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

c. The impact of the application of New IFRSs and the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations") in issue but not yet effective on the Company's consolidated financial statements was as follows:

As of the date the consolidated financial statements were authorized for issue, the Company is continuingly assessing the possible impact that the application of the above New IFRSs will have on the Company's financial position and operating result, and will disclose the relevant impact when the assessment is complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On May 14, 2009, the FSC announced the "Framework for the Adoption of IFRSs by the Companies in the ROC." In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs approved by the FSC.

The Company's consolidated financial statements for the years ended December 31, 2013 is its first IFRS consolidated financial statements. The date of transition to IFRSs was January 1, 2012. Refer to Note 40 for the impact of IFRS conversion on the Company's consolidated financial statements.

Statement of Compliance

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

Basis of Preparation

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

The opening consolidated balance sheet as of the date of transition to IFRSs was prepared in accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards. The applicable IFRSs have been applied retrospectively by the Company except for some aspects where other IFRS 1 prohibits retrospective application or grants optional exemptions to this general principle. For the exemptions of the Company, please refer to Note 40.

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. Those assets held primarily for trading purposes;
b. Those assets to be realized within twelve months;
c. Cash and cash equivalents from the balance sheet date unless the asset is to be used for an exchange or to settle a liability, or otherwise remains restricted, at more than twelve months after the balance sheet date.

Current liabilities are:

a. Obligations incurred for trading purposes;
b. Obligations to be settled within twelve months from the balance sheet date;
c. An unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

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

Basis of Consolidation

a. Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of HTC and entities controlled by HTC (its subsidiaries).

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

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

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

Attribution of total comprehensive income to non-controlling interests

Total comprehensive income of subsidiaries is attributed to the owners of HTC and to the non-controlling interests even though the non-controlling interests have a debit balance due to the attribution.

Changes in the Company's ownership interests in existing subsidiaries

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

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and 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 of the former subsidiary and any non-controlling interests at their carrying amounts at the date when control is lost. If the Company loses control of a subsidiary, 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 jointly controlled entity.

b. Subsidiaries included in consolidated financial statements

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

			% of Ownership			
Investor	Investee	Main Businesses	December 31, 2013	December 31, 2012	January 1, 2012	Remark
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	100.00	100.00	100.00	-
	Communication Global Certification Inc.	Telecom testing and certification services	100.00	100.00	100.00	-
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Investment Corporation	General investing activities	100.00	100.00	100.00	-
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales service	1.00	1.00	1.00	-
	HTC I Investment Corporation	General investing activities	100.00	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	0.01	0.01	0.01	-
	Huada Digital Corporation	Software service	50.00	50.00	50.00	1)
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	100.00	-
	FunStream Corporation	Design, research and development of three-D technology	-	100.00	-	2)
H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
	Exedea Inc.	Distribution and sales	-	-	100.00	3) -
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer (H.K.) Limited	Marketing, repair and after-sales service	100.00	100.00	100.00	-
	HTC (Australia and New Zealand) Pty. Ltd.	〃	100.00	100.00	100.00	-
	HTC Philippines Corporation	〃	99.99	99.99	99.99	-
	PT. High Tech Computer Indonesia	〃	99.00	99.00	99.00	-
	HTC (Thailand) Limited	〃	100.00	100.00	100.00	-
	HTC India Private Ltd.	〃	99.00	99.00	99.00	-
	HTC Malaysia Sdn. Bhd.	〃	100.00	100.00	100.00	-
	HTC Innovation Limited	〃	100.00	100.00	100.00	-
	HTC Communication Co., Ltd.	Sale of smart mobile devices	100.00	100.00	100.00	-
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	99.99	99.99	99.99	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	100.00	-
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	100.00	100.00	-	4)
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	100.00	-
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Repair and after-sales services	100.00	100.00	100.00	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership December 31, 2013	December 31, 2012	January 1, 2012	Remark
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	1.00	-
	HTC South Eastern Europe Limited Liability Company	〃	0.67	0.67	0.67	-
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company, marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	99.99	-
	HTC Belgium BVBA/SPRL	〃	100.00	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	99.33	-
	HTC Nordic ApS.	〃	100.00	100.00	100.00	-
	HTC Italia SRL	〃	100.00	100.00	100.00	-
	HTC Germany GmbH	〃	100.00	100.00	100.00	-
	HTC Iberia, S.L.	〃	100.00	100.00	100.00	-
	HTC Poland sp. z.o.o.	〃	100.00	100.00	100.00	-
	Saffron Media Group Ltd.	International holding company	-	100.00	100.00	5)
	HTC Communication Canada, Ltd.	Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Norway AS	〃	100.00	100.00	100.00	-
	HTC RUS LLC	〃	100.00	100.00	100.00	-
	HTC Communication Sweden AB	〃	100.00	100.00	100.00	-
	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	100.00	-
	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	-	6)
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	100.00	-
HTC FRANCE CORPORATION	ABAXIA SAS	International holding company, design, research and development of application software	100.00	100.00	100.00	-
HTC America Holding Inc.	HTC America Inc.	Sale of smart handheld devices	100.00	100.00	100.00	-
	One & Company Design, Inc.	Design, research and development of application software	100.00	100.00	100.00	-
	HTC America Innovation Inc.	〃	100.00	100.00	100.00	-
	HTC America Content Services, Inc.	Online/download media services	100.00	100.00	100.00	-
	Dashwire, Inc.	Design, research and development of wireless connectivity software	100.00	100.00	100.00	-
	Beats Electronics, LLC	Design, research and development of audio technology	-	-	50.14	7)
	Inquisitive Minds, Inc.	Development and sale of digital education platform	100.00	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership December 31, 2013	December 31, 2012	January 1, 2012	Remark
ABAXIA SAS	HTC BLR	Design, research and development of application software	100.00	100.00	100.00	-
Saffron Media Group Ltd.	Saffron Digital Ltd.	Design, research and development of application software	-	100.00	100.00	5)
	Saffron Digital Inc.	〃	-	100.00	100.00	5)

(Concluded)

Remark:

1) Huada Digital Corporation ("Huada") was incorporated in January 2010 and the Company changed in ownership percentage in October 2011. In March 2012, investment type change to joint venture and the Company lost significant influence.
2) In February 2012, the Company invested in FunStream Corporation shares. FunStream Corporation was dissolved in June 2013.
3) Exedea Inc. was incorporated in December 2004, investment received in July 2005 and liquidated in December 2012.
4) Yoda Co., Ltd. was incorporated in September 2012.
5) Saffron Media Group Ltd. and its subsidiaries were disposed in September 2013.
6) HTC Middle East FZ-LLC was incorporated in September 2012.
7) The Company invested in Beats Electronics, LLC shares in October 2011 and lost its control of the subsidiary in July 2012 because of the partial disposal of its shares and thus accounted for this investment by equity method.

c.Subsidiaries excluded from consolidated financial statements: None

Business Combinations

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

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

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

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

Foreign Currencies

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

Exchange differences on monetary items 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.

Exchange differences arising on the retranslation of non-monetary assets (such as equity instruments) or liabilities measured at fair value are included in profit or loss for the period at the rates prevailing at the end of reporting period except for exchange differences arising on 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.

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, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of HTC are reclassified to profit or loss.

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

Inventories

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

Investments in Associates

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

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

When the Company subscribes for its associate's newly issued shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments accounted for by the equity method, with a corresponding amount credited or charged to capital surplus. If additional subscription of the new shares of associate results in a decrease in the ownership interest, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate 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 equals or exceeds the Company's interest in that associate (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), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment 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 requirements of IAS 39 "Financial Instruments: Recognition and Measurement" are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 "Impairment of Assets" 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 it ceases to have significant influence over the associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

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

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. The accounting treatment for jointly controlled entities is the same as investments in associates (please refer to Note 4 "Investments in associates" section).

Property, Plant and Equipment

Property, plant and equipment are tangible items that held for use in the production, supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used more than twelve months. Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

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

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

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

Goodwill

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

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

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

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.

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 over their estimated useful lives. 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 being accounted for on a prospective basis which is in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, 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 can be identified.

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

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

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

When an impairment loss subsequently 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.

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/settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a. Measurement category

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

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

A financial asset is classified as held for trading if:

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

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

In addition, if a contract contains one or more embedded derivatives, the entire combined contract (asset or liability) can be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 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. Held-to-maturity investments
   Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity other than those that the entity upon initial recognition designates as at fair value through profit or loss, or designates as available for sale, or meet the definition of loans and receivables. Corporate bonds above specific credit ratings and the Company has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

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

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

Fair value is determined in the manner described in Note 32.

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.

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

4. Loans and receivables

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

b. Impairment of financial assets

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

For certain categories of financial assets, such as trade receivables 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

c. Derecognition of financial assets

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

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

Equity instruments

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

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

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

Financial liabilities

a. Subsequent measurement

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

In addition, if a contract contains one or more embedded derivatives, the entire combined contract (asset or liability) can be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 32.

b. Derecognition of financial liabilities

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

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, 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 in respect of foreign currency risk as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

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

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

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

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. 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 the forecast transaction is ultimately recognized in profit or loss, the associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss or are included in the initial cost of the non-financial asset or non-financial liability. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

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

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

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

a. Warranty provisions

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

b. Provisions for contingent loss on purchase orders

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

Revenue Recognition

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

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

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

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

Retirement Benefit Costs

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

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

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

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

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

Share-based Payment Arrangements

<u>Share-based payment transactions of the Company</u>

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.

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.

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 stockholders 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 to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

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

Accrued Marketing Expenses

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

Treasury Stock

When the Company acquires its outstanding shares that have not been disposed or retired, treasury stock is stated at cost and shown as a deduction in stockholders' equity. When treasury shares are sold, if the selling price is above the book value, the difference should be credited to the capital surplus - treasury stock transactions. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. The carrying value of treasury stock is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

a. Accrued marketing and advertising expenses

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of accrued marketing and advertising expenses were NT$22,592,673 thousand, NT$20,872,536 thousand and NT$29,104,665 thousand, respectively.

b. Allowances for doubtful debts

Receivables are assessed for impairment at the end of each reporting period and considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the receivables, the estimated future cash flows of the asset have been affected.

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of allowances for doubtful debts were NT$3,050,907 thousand, NT$2,086,085 thousand and NT$1,555,008 thousand, respectively.

c. Impairment of tangible and intangible assets other than goodwill

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

The Company recognized impairment loss on tangible and intangible assets other than goodwill for NT$273,046 thousand and NT$1,255,732 thousand for the years ended December 31, 2013 and 2012, respectively.

d. Impairment of goodwill

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of goodwill were NT$174,253 thousand, NT$1,534,366 thousand and NT$10,812,564 thousand, after deduction of accumulated impairment losses of NT$700,531 thousand, NT$147,195 thousand and NT$93,314 thousand, respectively. The Company recognized an impairment loss on goodwill for NT$591,306 thousand and NT$57,621 thousand for the years ended December 31, 2013 and 2012, respectively.

e. Valuation of inventories

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

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of inventories were NT$23,599,558 thousand, NT$23,809,377 thousand and NT$28,430,590 thousand, respectively.

f. Realization of deferred tax assets

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of deferred tax assets were NT$8,665,235 thousand, NT$8,689,842 thousand and NT$6,319,978 thousand, respectively.

g. Estimates of warranty provision

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

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

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of warranty provision were NT$7,376,035 thousand, NT$8,058,509 thousand and NT$13,080,394 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	$2,479	$15,433	$6,436
Checking accounts	15,209	12,134	9,709
Demand deposits	28,639,014	36,224,664	28,197,300
Time deposits (with original maturities less than three months)	24,642,239	14,713,912	33,813,313
	$53,298,941	$50,966,143	$62,026,758

Cash equivalents include time deposits that have a maturity of three months or less from the date of acquisition, are readily convertible to a known amount of cash, and are subject to an insignificant risk of change in value; these were held for the purpose of meeting short-term cash commitments.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Bank deposits	0.2%-0.85%	0.2%-1.05%	0.15%-1%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets held for trading			
Derivatives (not designated as hedging instruments)			
Exchange contracts	$162,297	$6,950	$256,868

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

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
December 31, 2013					
Foreign exchange contracts	Sell	EUR/USD	2014.01.02-2014.01.29	EUR	61,000
Foreign exchange contracts	Sell	JPY/USD	2014.03.31	JPY	3,755,090
Foreign exchange contracts	Sell	GBP/USD	2014.01.15-2014.01.22	GBP	12,000
Foreign exchange contracts	Sell	USD/NTD	2014.01.06-2014.02.05	USD	391,700
Foreign exchange contracts	Sell	CAD/USD	2014.01.13-2014.01.29	CAD	5,500
Foreign exchange contracts	Buy	USD/RMB	2014.01.08-2014.01.22	USD	100,600
Foreign exchange contracts	Buy	CAD/USD	2014.01.13	CAD	4,000
Foreign exchange contracts	Buy	RMB/USD	2014.01.08	RMB	11,000
Foreign exchange contracts	Buy	EUR/USD	2014.01.15-2014.01.22	EUR	18,000
Foreign exchange contracts	Buy	GBP/USD	2014.01.15-2014.01.22	GBP	2,000
December 31, 2012					
Foreign exchange contracts	Sell	EUR/USD	2013.01.11-2013.03.27	EUR	146,000
Foreign exchange contracts	Sell	GBP/USD	2013.01.09-2013.03.20	GBP	20,700
Foreign exchange contracts	Sell	USD/NTD	2013.01.17-2013.02.20	USD	70,000
Foreign exchange contracts	Sell	USD/RMB	2013.01.09-2013.01.30	USD	78,000
Foreign exchange contracts	Buy	USD/RMB	2013.01.09-2013.01.30	USD	106,000
Foreign exchange contracts	Buy	USD/JPY	2013.01.09-2013.03.08	USD	97,437
Foreign exchange contracts	Buy	USD/CAD	2013.01.09-2013.02.22	USD	22,158
Foreign exchange contracts	Buy	USD/NTD	2013.01.07-2013.02.21	USD	270,000
January 1, 2012					
Foreign exchange contracts	Buy	USD/CAD	2012.01.11-2012.02.22	USD	28,010
Foreign exchange contracts	Buy	USD/RMB	2012.01.04-2012.01.31	USD	105,000
Foreign exchange contracts	Sell	EUR/USD	2012.01.04-2012.03.30	EUR	339,000
Foreign exchange contracts	Sell	GBP/USD	2012.01.11-2012.02.22	GBP	17,100

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic investments			
Listed stocks	$239	$197	$279
Mutual funds	-	-	736,031
	239	197	736,310
Foreign investments			
Listed depositary receipts	-	37,902	-
	$239	$38,099	$736,310
Current	$-	$37,902	$736,031
Non-current	239	197	279
	$239	$38,099	$736,310

9. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic investments			
Bonds	$-	$101,459	$204,597
Current	$-	$101,459	$-
Non-current	-	-	204,597
	$-	$101,459	$204,597

10. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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

The Company's foreign-currency cash flows derived from the highly probable forecast transaction may lead to risks on foreign-currency financial assets and liabilities and estimated future cash flows due to the exchange rate fluctuations. The Company assesses the risks may be significant; thus, the Company entered into derivative contracts to hedge against foreign-currency exchange risks.

The terms of the forward exchange contracts had been negotiated to match the terms of the respective designated hedged items. The outstanding forward exchange contracts of the Company at the end of the reporting period were as follows:

	Buy/ Sell	Currenc	Maturity Date	Notional Amount (In Thousands)
December 31, 2012				
Foreign exchange contracts	Buy	USD/JPY	2013. 03.28	USD 95,356

The Company supplied products to clients in Japan and signed forward exchange contracts to avoid its exchange rate exposure due to the forecast sales. Those forward exchange contracts were designated as cash flow hedges.

Gains and losses of hedging instruments transferred from equity to profit or loss were included in the following line items in the consolidated statements of comprehensive income:

	For the Year Ended December 31	
	2013	2012
Revenues	$262,648	$-
Other gains and losses	151,305	10,467
	$413,953	$10,467

11. FINANCIAL ASSETS MEASURED AT COST

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic unlisted equity investment	$698,861	$698,861	$698,861
Overseas unlisted equity investment	1,830,694	1,781,514	2,065,876
Overseas unlisted mutual funds	2,073,506	1,824,532	643,917
	$ 4,603,061	$ 4,304,907	$ 3,408,654
Classified according to financial asset measurement categories			
Available-for-sale financial assets	$4,603,061	$4,304,907	$3,408,654

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 at the end of reporting period.

The Company made a overseas unlisted equity investment in OnLive, Inc. In August 2012, OnLive, Inc. declared to have an asset restructuring due to the lack of operating cash and an inability to raise new capital. The Company assessed that its investment could not be recovered and thus recognized an impairment loss of NT$1,199,045 thousand.

12. OTHER CURRENT FINANCIAL ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Trust assets for employee benefit	$2,359,041	$3,645,820	$-
Time deposits with original maturities more than three months	411,982	2,915,624	25,543,450
	$2,771,023	$6,561,444	$25,543,450

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Time deposits with original maturities more than three months	2.45%-3.08%	0.39%-3.30%	0.39%-3.30%

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

13. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31, 2013	December 31, 2012	January 1, 2012
Note and trade receivables			
Note receivables	$-	$-	$755,450
Trade receivables	26,420,770	43,118,861	65,518,876
Trade receivables - related parties	1,309	221,050	473
Less: Allowances for doubtful debts	(3,050,907)	(2,086,085)	(1,555,008)
	$23,371,172	$41,253,826	$64,719,791
Other receivables			
Loan receivables - fluctuation rate	$-	$6,554,025	$-
Receivables from disposal of investments	1,182,393	4,369,350	-
VAT refund receivables	355,442	391,276	792,364
Interest receivables	10,878	54,135	23,261
Others	1,771,333	1,124,926	1,133,006
	$3,320,046	$12,493,712	$1,948,631
Current - other receivables	$2,137,653	$8,124,362	$1,948,631
Non-current - other receivables	1,182,393	4,369,350	-
	$3,320,046	$12,493,712	$1,948,631

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 doubtful debts of 10-100% against receivables past due more than 31 days.

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

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

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

Age of impaired trade receivables

	December 31, 2013	December 31, 2012	January 1, 2012
1-90 days	$3,714,226	$7,700,143	$15,528,464
91-180 days	1,468,049	1,092,164	1,994,283
Over 181 days	803,422	5,651	74,014
	$5,985,697	$8,797,958	$17,596,761

The above was shown after deducting the allowance for doubtful debts and analyzed on the basis of the past due date.

Movement in the allowances for doubtful debts

	For the Year Ended December 31	
	2013	2012
Balance, beginning of the year	$2,086,085	$1,555,008
Impairment losses recognized on receivables	1,010,405	531,364
Amounts written off during the year	(13,943)	(401)
Disposal of subsidiary	(32,453)	-
Translation adjustment	813	114
Balance, end of the year	$3,050,907	$2,086,085

Other Receivables

Loan receivables - fluctuation rate is the short-term loan to Beats Electronics, LLC. For more details, please refer to Note 33.

Receivable from disposal of investments is the amount of sale of shares of Saffron Media Group Ltd. For more details, please refer to Note 30.

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

14. INVENTORIES

	December 31, 2013	December 31, 2012	January 1, 2012
Finished goods	$3,487,921	$2,275,082	$1,471,690
Work-in-process	521,423	1,902,733	4,320,763
Semi-finished goods	8,244,216	4,960,060	4,382,760
Raw materials	11,074,773	14,374,714	18,134,048
Inventory in transit	271,225	296,788	121,329
	$23,599,558	$23,809,377	$28,430,590

The losses on inventories decline amounting to NT$417,166 thousand and NT$2,154,419 thousand were recognized as cost of revenues for the years ended December 31, 2013 and 2012, respectively.

15. PREPAYMENTS

	December 31, 2013	December 31, 2012	January 1, 2012
Royalty	$12,007,756	$9,936,609	$12,521,985
Prepayments to suppliers	2,492,197	2,976,231	3,256,082
Net input VAT	1,918,462	434,521	320,544
Molding expenses	304,411	96,859	188,242
Prepaid equipment	194,200	232,011	207,061
Software and hardware maintenance	139,958	716,695	311,416
Land use right	138,376	134,074	139,707
Service	113,661	171,440	55,192
Others	234,123	144,126	162,413
	$17,543,144	$14,842,566	$17,162,642
Current	$5,803,744	$4,965,814	$6,507,516
Non-current	11,739,400	9,876,752	10,655,126
	$17,543,144	$14,842,566	$17,162,642

Prepayments for royalty were primarily for getting royalty right and were classified as current or non-current in accordance with their nature. For details of content of contracts, please refer to Note 38.

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

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31, 2013	December 31, 2012	January 1, 2012
Investment in subsidiaries	$-	$5,650,859	$71,732
Investment in jointly controlled entity	227,504	241,309	-
	$227,504	$5,892,168	$71,732

Investments in Subsidiaries

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Beats Electronics, LLC	100.00%	100.00%	100.00%
Ownership	-	25.14%	50.14%
Voting right	-	25.57%	51.00%
SYNCTV Corporation	20.00%	20.00%	20.00%

In September 2011, the Company acquired 20% equity interest in SYNCTV Corporation for US$2,500 thousand and accounted for this investment by the equity method. In December 2012, the Company determined that the recoverable amount of this investment was less than its carrying amount and thus recognized an impairment loss of NT$56,687 thousand.

In October 2011, the Company acquired 50.14% equity interest in Beats Electronics, LLC for US$300,000 thousand. In July 2012, the Company sold back 25% of Beats Electronics, LLC shares to the founding members of Beats Electronics, LLC for US$150,000 thousand. For details of transaction, please refer to Note 30. In October, 2013, the Company sold back its remaining interest in Beats Electronics, LLC to Beats Electronics, LLC for US$265,000 thousand. This transaction resulted in the recognition of a gain in profit or loss, calculated as follows:

Proceeds of disposal	$7,883,326
Less: Carrying amount of investment at the date of disposal	(5,285,537)
Add: Share of other comprehensive income of the associate	39,884
Gain recognized	$2,637,673

The amount of unrecognized share of losses of those associates, both for the period and cumulatively, was as follows:

	For the Year Ended December 31	
	2013	2012
Unrecognized share of losses of associates		
For the period	$9,455	$3,606
Accumulated	$13,061	$3,606

Investments accounted for using the equity method and the share of net income or loss and other comprehensive income from investments are accounted for based on the audited financial statements except for SYNCTV Corporation. The Company's management considers the use of unaudited financial statements of the investee did not have material impact on its consolidated financial statements.

Investments in Jointly Controlled Entity

	December 31, 2013	December 31, 2012	January 1, 2012
Unlisted equity investments			
Huada Digital Corporation	$227,504	$241,309	$-

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

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

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

The investments in jointly controlled entity and the share of net income and other comprehensive income from investments are accounted for based on audited financial statements.

17. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2013	December 31, 2012	January 1, 2012
Carrying amounts			
Land	$7,623,287	$7,615,546	$7,614,167
Buildings	10,507,548	10,542,019	5,029,932
Property in construction	145	-	1,923,876
Machinery and equipment	5,761,926	6,327,723	5,907,321
Other equipment	1,668,493	1,505,478	1,240,337
	$25,561,399	$25,990,766	$21,715,633

Movement of property, plant and equipment for the years ended December 31, 2013 and 2012 were as follows:

	2013					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$7,615,546	$11,851,900	$-	$13,310,647	$2,787,808	$35,565,901
Additions	-	252,735	6,683	1,178,694	797,615	2,235,727
Disposal	-	(5,995)	-	(138,393)	(102,601)	(246,989)
Reclassification	-	5,275	(4,958)	(88,006)	87,689	-
Transfer to expense	-	-	(1,581)	-	(1,436)	(3,017)
Translation adjustment	7,741	125,676	1	217,970	87,336	438,724
Disposal of subsidiaries	-	-	-	-	(91,527)	(91,527)
Balance, end of the year	7,623,287	12,229,591	145	14,480,912	3,564,884	37,898,819
Accumulated depreciation						
Balance, beginning of the year	-	1,309,881	-	6,982,924	1,282,330	9,575,135
Depreciation expenses	-	399,036	-	1,824,620	693,043	2,916,699
Disposal	-	(5,995)	-	(138,219)	(100,108)	(244,322)
Reclassification	-	11,434	-	(35,096)	23,662	-
Transfer to expense	-	-	-	-	(22)	(22)
Translation adjustment	-	7,687	-	84,757	36,720	129,164
Disposal of subsidiaries	-	-	-	-	(39,234)	(39,234)
Balance, end of the year	-	1,722,043	-	8,718,986	1,896,391	12,337,420
Net book value, end of the year	$7,623,287	$10,507,548	$145	$5,761,926	$1,668,493	$25,561,399

	2012					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$7,614,167	$6,047,519	$1,923,876	$11,470,702	$2,040,507	$29,096,771
Additions	208	226,585	3,916,745	2,110,556	1,027,021	7,281,115
Disposal	-	(468)	-	(202,421)	(72,126)	(275,015)
Reclassification	-	5,615,958	(5,834,709)	-	115	(218,636)
Transfer to expense	-	-	(5,912)	(2,520)	(6,666)	(15,098)
Translation adjustment	1,171	(37,694)	-	(65,670)	(20,807)	(123,000)
Disposal of subsidiaries	-	-	-	-	(180,236)	(180,236)
Balance, end of the year	7,615,546	11,851,900	-	13,310,647	2,787,808	35,565,901
Accumulated depreciation						
Balance, beginning of the year	-	1,017,587	-	5,563,381	800,170	7,381,138
Depreciation expenses	-	307,379	-	1,620,750	534,888	2,463,017
Disposal	-	(449)	-	(173,298)	(55,984)	(229,731)
Translation adjustment	-	(14,636)	-	(27,909)	13,964	(28,581)
Disposal of subsidiaries	-	-	-	-	(10,708)	(10,708)
Balance, end of the year	-	1,309,881	-	6,982,924	1,282,330	9,575,135
Net book value, end of the year	$7,615,546	$10,542,019	$-	$6,327,723	$1,505,478	$25,990,766

The above items of property, plant and equipment were depreciated on a straight-line basis at the following rates per annum:

Building	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 were depreciated over their estimated useful lives of 40 to 50 years, 20 years and 5 to 10 years, respectively.

There were no interests capitalized for the years ended December 31, 2013 and 2012.

18. INTANGIBLE ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Carrying amounts			
Patents	$7,668,901	$9,180,674	$11,152,098
Goodwill	174,253	1,534,366	10,812,564
Other intangible assets	820,912	968,130	802,817
	$8,664,066	$11,683,170	$22,767,479

	2013			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of the year	$11,239,554	$1,681,561	$1,603,108	$14,524,223
Additions				
Acquisition	22,213	-	200,795	223,008
Transfer from prepayment	-	-	509,710	509,710
Disposal	(6,778)	-	(24,709)	(31,487)
Adjustment in acquisition of a subsidiary	-	(67,690)	(39,966)	(107,656)
Disposal of subsidiaries	-	(785,338)	(608,519)	(1,393,857)
Translation adjustment	241,501	46,251	49,013	336,765
Balance, end of the year	11,496,490	874,784	1,689,432	14,060,706
Accumulated amortization				
Balance, beginning of the year	2,058,880	-	634,978	2,693,858
Amortization expenses	1,618,246	-	350,246	1,968,492
Disposal	-	-	(22,372)	(22,372)
Disposal of subsidiaries	-	-	(283,487)	(283,487)
Translation adjustment	39,378	-	26,314	65,692
Balance, end of the year	3,716,504	-	705,679	4,422,183
Accumulated impairment				
Balance, beginning of the year	-	147,195	-	147,195
Impairment losses	111,085	591,306	161,961	864,352
Disposal of subsidiaries	-	(45,017)	-	(45,017)
Translation adjustment	-	7,047	880	7,927
Balance, end of the year	111,085	700,531	162,841	974,457
Net book value, end of the year	$7,668,901	$174,253	$820,912	$8,664,066

	2012			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of the year	$11,608,540	$10,905,878	$1,203,368	$23,717,786
Additions				
Acquisition	11,464	-	545,117	556,581
Difference between the cost of investments and the Company's share in investees' net assets	-	45,017	-	45,017
Adjustments of acquisition cost	-	(26,226)	-	(26,226)
Reclassification	-	(5,717,960)	5,717,960	-
Disposal	-	-	(64,719)	(64,719)
Disposal of subsidiaries	(35,323)	(3,485,380)	(5,713,752)	(9,234,455)
Translation adjustment	(345,127)	(39,768)	(84,866)	(469,761)
Balance, end of the year	11,239,554	1,681,561	1,603,108	14,524,223
Accumulated amortization				
Balance, beginning of the year	456,442	-	400,551	856,993
Amortization expenses	1,625,124	-	422,557	2,047,681
Disposal	-	-	(64,719)	(64,719)
Disposal of subsidiaries	(1,893)	-	(115,699)	(117,592)
Translation adjustment	(20,793)	-	(7,712)	(28,505)
Balance, end of the year	2,058,880	-	634,978	2,693,858
Accumulated impairment				
Balance, beginning of the year	-	93,314	-	93,314
Impairment losses	-	57,621	-	57,621
Translation adjustment	-	(3,740)	-	(3,740)
Balance, end of the year	-	147,195	-	147,195
Net book value, end of the year	$9,180,674	$1,534,366	$968,130	$11,683,170

The Company owns patents of graphics technologies. As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of such patents were NT$6,641,606 thousand, NT$7,555,334 thousand and NT$9,008,002 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

19. NOTE AND TRADE PAYABLES

	December 31, 2013	December 31, 2012	January 1, 2012
Note payables	$1,355	$294	$3,779
Trade payables	46,266,193	73,598,634	78,469,351
Trade payables - related parties	8,303	19,269	-
	$46,275,851	$73,618,197	$78,473,130

The average term of payment is four months. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

20. OTHER LIABILITIES

	December 31, 2013	December 31, 2012	January 1, 2012
Other payables			
Accrued expenses	$36,999,785	$37,469,944	$46,270,611
Payables for purchase of equipment	815,774	1,471,529	812,240
Others	217,440	325,700	512,940
	$38,032,999	$39,267,173	$47,595,791
Other current liabilities			
Advance receipts	$529,470	$637,657	$574,596
Agency receipts	259,529	301,868	440,862
Others	167,128	848,581	645,682
	$956,127	$1,788,106	$1,661,140

Accrued Expenses

	December 31, 2013	December 31, 2012	January 1, 2012
Marketing	$22,592,673	$20,872,536	$29,104,665
Salaries and bonuses	5,757,389	5,712,741	3,532,970
Bonus to employees	3,278,053	5,712,075	7,238,637
Services	1,780,205	1,020,609	1,324,631
Materials and molding expenses	1,650,934	1,904,181	1,854,932
Import, export and freight	647,588	644,432	1,397,747
Repairs, maintenance and sundry purchase	237,463	573,355	466,135
Others	1,055,480	1,030,015	1,350,894
	$36,999,785	$37,469,944	$46,270,611

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

Other Payables - Others

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

21. PROVISIONS

	December 31, 2013	December 31, 2012	January 1, 2012
Warranty provision	$7,376,035	$8,058,509	$13,080,394
Provisions for contingent loss on purchase orders	832,850	823,005	2,052,881
	$8,208,885	$8,881,514	$15,133,275

Movement of provisions for the years ended December 31, 2013 and 2012 were as follows:

	2013		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$8,058,509	$823,005	$8,881,514
Provisions recognized	13,945,001	359,350	14,304,351
Amount utilized during the year	(14,789,263)	(349,505)	(15,138,768)
Translation adjustment	161,788	-	161,788
Balance, end of the year	$7,376,035	$832,850	$8,208,885

	2012		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$13,080,394	$2,052,881	$15,133,275
Provisions recognized	10,363,279	-	10,363,279
Reversing un-usage balances	-	(751,363)	(751,363)
Amount utilized during the year	(15,156,357)	(478,513)	(15,634,870)
Translation adjustment	(228,807)	-	(228,807)
Balance, end of the year	$8,058,509	$823,005	$8,881,514

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

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

22. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, HTC and Communication Global Certification Inc. ("CGC") make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

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

The total expenses recognized in the consolidated statement of comprehensive income were NT$786,658 thousand and NT$665,765 thousand, representing the contributions payable to these plans by the Company at the rates specified in the plans for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, December 31, 2012 and January 1, 2012, the amounts of contributions payable were NT$109,323 thousand, NT$119,833 thousand and NT$123,877 thousand, respectively, the amounts were paid subsequent to the end of the reporting period.

Defined Benefit Plans

Based on the defined benefit plan under the Labor Standards Law ("LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. HTC and CGC contributed amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in Bank of Taiwan in the committee's name.

The actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out by qualifying actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Discount rates	1.625%-1.875%	1.250%-1.625%	1.500%-1.750%
Expected return on plan assets	2.000%	1.875%	2.000%
Expected rates of salary increase	2.250%-4.000%	2.250%-4.000%	2.250%-4.000%

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

	For the Year Ended December 31	
	2013	2012
Current service cost	$4,599	$5,600
Interest cost	6,408	6,684
Expected return on plan assets	(9,885)	(9,918)
	$1,122	$2,366
Operating cost	$301	$644
Selling and marketing	89	717
General and administrative	126	262
Research and development	606	743
	$1,122	$2,366

The amounts of actuarial losses recognized in other comprehensive income were NT$17,106 thousand and NT$5,382 thousand for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, the amounts of actuarial losses recognized in accumulated other comprehensive income were NT$22,488 thousand and NT$5,382 thousand, respectively.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded defined benefit obligation	$(413,220)	$(394,681)	$(382,134)
Fair value of plan assets	538,935	513,954	482,785
Defined benefit assets	$125,715	$119,273	$100,651

Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2013	2012
Opening defined benefit obligation	$394,681	$382,134
Current service cost	4,599	5,601
Interest cost	6,408	6,684
Actuarial losses	13,851	262
Benefits paid	(6,319)	-
Closing defined benefit obligation	$413,220	$394,681

Movements in the present value of the plan assets in the current year were as follows:

	For the Year Ended December 31	
	2013	2012
Opening fair value of plan assets	$513,954	$482,786
Expected return on plan assets	9,885	9,918
Actuarial losses	(3,255)	(5,120)
Contributions from the employer	24,670	26,370
Benefits paid	(6,319)	-
Closing fair value of plan assets	$538,935	$513,954

The major categories of plan assets at the end of the reporting period for each category were disclosed based on the information announced by Labor Pension Fund Supervisory Committee.:

	December 31, 2013	December 31, 2012	January 1, 2012
Equity instruments	44.77%	37.43%	40.75%
Debt instruments	54.44%	61.78%	59.12%
Others	0.79%	0.79%	0.13%
	100.00%	100.00%	100.00%
	100.00%	100.00%	100.00%

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

The Company expects to make a contribution of NT$22,944 thousand to the defined benefit pension plan within one year from December 31, 2013.

23. EQUITY

Share Capital

a. Common stock

	December 31, 2013	December 31, 2012	January 1, 2012
Authorized shares (in thousands of shares)	1,000,000	1,000,000	1,000,000
Authorized capital	$10,000,000	$10,000,000	$10,000,000
Issued and fully paid shares (in thousands of shares)	842,351	852,052	852,052
Issued capital	$8,423,505	$8,520,521	$8,520,521

Fully paid ordinary shares, which have a par value of $10, carry one vote per share and carry a right to dividends.

16,000 thousand shares of the Company's shares authorized were reserved for the issuance of employee share options.

b. Global depositary receipts

In November 2003, HTC issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, HTC's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of stock dividends, the GDRs increased to 8,782.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested HTC to redeem the GDRs to get HTC's common shares. As of December 31, 2013, there were 8,289.9 thousand units of GDRs redeemed, representing 33,159.8 thousand common shares, and the outstanding GDRs represented 2,900.7 thousand common shares or 0.35% of HTC's outstanding common shares.

Capital Surplus

	December 31, 2013	December 31, 2012	January 1, 2012
Additional paid-in capital - issuance of shares in excess of par	$14,640,983	$14,809,608	$14,809,608
Treasury shares	631,791	1,730,458	1,730,458
Merger	24,145	24,423	24,423
Employee share options	26,742	-	-
Expired stock options	36,646	37,068	37,068
	$15,360,307	$16,601,557	$16,601,557

The premium from shares issued in excess of par (share premium from issuance of common shares, treasury shares transactions, merger 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 capital (limited to a certain percentage of the Company's capital surplus and once a year).

In September and November 2013, the retirement of treasury shares caused decreases of NT$168,625 thousand in additional paid-in capital - issuance of shares in excess of par, NT$9,727 thousand in capital surplus - treasury shares, NT$278 thousand in capital surplus - merger and NT$422 thousand in capital surplus - expired stock options. The difference the carrying value of treasury shares retired in excess of the sum of its par value and premium from issuance of common share was firstly offset against capital surplus - treasury shares by NT$1,088,940 thousand, and the rest offset against accumulated earnings amounting to NT$814,170 thousand.

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. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above items (a) to (d).
f. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above items (a) to (d), or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include the affiliates' employees who meet

specific requirements prescribed by the board of directors.

g. For any remainder, the board of directors should propose allocation ratios based on the dividend policy set forth in HTC's Articles and propose them at the stockholders' meeting.

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

No employee bonus was estimated as the Company reported net loss for the year ended December 31, 2013. The employee bonus for 2012 should be appropriated at 5% of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Under Rule No. 100116 and Rule No. 0950000507 issued by the FSC, an amount equal to the net debit balance of certain shareholders' equity accounts shall be transferred from unappropriated earnings to a special reserve before any appropriation of earnings generated before January 1, 2012 shall be made. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

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

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

The appropriations of earnings for 2012 and 2011 had been approved in the shareholders' meetings on June 21, 2013 and June 12, 2012, respectively. The appropriations and dividends per share were as follows:

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

The bonus to employees for 2012 and 2011 approved in the shareholders' meetings on June 21, 2013 and June 12, 2012, respectively, were as follows:

	Amounts Approved in Shareholders' Meetings	Amounts Recognized in Financial Statements
For 2012		
Cash	$976,327	
Stock	-	
	$976,327	$976,327
For 2011		
Cash	$7,238,637	
Stock	-	
	$7,238,637	$7,238,637

The approved amounts of bonus to employees were the same as the accrual amounts recognized in the financial statements for 2012 and 2011, respectively.

The appropriations of earnings for 2012 were proposed according to HTC's financial statements for the year ended December 31, 2012, which were prepared in accordance with the pre-amended Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China, and by reference to the balance sheet for the year ended December 31, 2012, which was prepared in accordance with the amended Guidelines Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards.

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

Other Equity

	December 31, 2013	December 31, 2012	January 1, 2012
Exchange differences on translating foreign operations	$559,719	$(1,089,693)	$-
Unrealized (loss) gains on available-for-sale financial assets	(2,021)	9,716	2,939
Cash flow hedge	-	194,052	-
	$557,698	$(885,925)	$2,939

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. Cash flow hedge

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

Non-controlling Interest

	For the Year Ended December 31	
	2013	2012
Balance, beginning of period	$-	$992,724
Share of profit attributable to non-controlling interests	-	808,218
Decrease in non-controlling interest due to losing control of subsidiary	-	(1,648,909)
Non-controlling interest relating to outstanding vested share options held by the employees of subsidiaries	-	(152,033)
Balance, end of period	$-	$-

Treasury Shares

On August 2, 2013, the Company's board of directors passed a resolution to buy back 15,000 thousand Company shares from the open market. The repurchase period was between August 5, 2013 and October 4, 2013, and the repurchase price ranged from NT$140 to NT$290 per share. If the Company's share price is lower than this price range, the Company may continue to buy back its shares. The Company had bought back 7,789 thousand shares for NT$1,033,846 thousand during the repurchase period, which retired by the Company's board of directors in November 2013.

The Company had repurchased company shares from the open market for transferring to employees and some of them had not been transferred before the expiry time. The Board of Directors approved the retirement of 1,912 thousand treasury stocks on September 27, 2013. The related information on the treasury stock transactions was as follows:

(In Thousands of Shares)

Reason to Reacquire	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
For 2013				
To transfer shares to the Company's employees	20,825	-	1,912	18,913
To maintain the Company's credibility and stockholders' interest	-	7,789	7,789	-
	20,825	7,789	9,701	18,913
For 2012				
To transfer shares to the Company's employees	14,011	6,814	-	20,825

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of a company's issued and outstanding shares, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par and realized capital surplus.

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.

24. REVENUE

	For the Year Ended December 31	
	2013	2012
Sale of goods	$200,208,038	$282,914,686
Other operating income	3,194,610	6,105,489
	$203,402,648	$289,020,175

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT$262,648 thousand of the gain on the hedging instrument that was determined to be the effective portion of the hedge to sales of goods for the year ended December 31, 2013.

For the analysis of main products and other revenue, please refer to Note 39.

25. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS AND OTHER COMPREHENSIVE INCOME AND LOSS

a. Other income

	For the Year Ended December 31	
	2013	2012
Interest income		
Cash in bank	$342,422	$533,898
Held-to-maturity financial assets	794	1,710
Loan	211,139	82,027
	554,355	617,635
Dividend income	16,282	22,441
Others	594,311	528,456
	$1,164,948	$1,168,532

b. Other gains and losses

	For the Year Ended December 31	
	2013	2012
Losses on disposal of property, plant and equipment	$(58)	$(6,395)
Gain on disposal of intangible assets	108,265	-
Gains on sale of available-for-sale financial assets	29,735	49,084
Gain on disposal of investments accounted for using equity method	2,637,673	-
Gain (loss) on disposal of subsidiaries	175,435	(214,268)
Net foreign exchange gains	109,960	666,883
Valuation gains on financial liabilities classified as held for trading	162,297	6,950
Hedge ineffective portion on cash flow hedges	151,305	10,467
Impairment loss	(864,352)	(1,313,353)
Other losses	(88,994)	(122,912)
	$2,421,266	$(923,544)

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.

c. Impairment losses on financial assets

	For the Year Ended December 31	
	2013	2012
Trade receivables (included in operating expense)	$1,010,405	$531,364
Financial assets measured at cost (included in other gains and losses)	-	1,199,045
	$1,010,405	$1,730,409

d. Depreciation and amortization

	For the Year Ended December 31	
	2013	2012
Property, plant and equipment	$2,916,699	$2,463,017
Intangible assets	1,968,492	2,047,681
	$4,885,191	$4,510,698
Classification of depreciation - by function		
Cost of revenues	$1,538,825	$1,322,730
Operating expenses	1,377,874	1,140,287
	$2,916,699	$2,463,017
Classification of amortization - by function		
Cost of revenues	$6,841	$6,833
Operating expenses	1,961,651	2,040,848
	$1,968,492	$2,047,681

e. Employee benefits expense

	For the Year Ended December 31	
	2013	2012
Post-employment benefits (Note 22)		
Defined contribution plans	$786,658	$665,765
Defined benefit plans	1,122	2,366
	787,780	668,131
Share-based payments		
Equity-settled share-based payments	26,742	-
Other employee benefits	17,517,784	21,055,551
Total employee benefits expense	$18,332,306	$21,723,682
Classification - by function		
Cost of revenues	$6,539,452	$6,241,376
Operating expenses	11,792,854	15,482,306
	$18,332,306	$21,723,682

f. Impairment losses on non-financial assets

	For the Year Ended December 31	
	2013	2012
Inventories (included in cost of revenues)	$417,166	$2,154,419
Investments accounted for by the equity method (included in other gains and losses)	-	56,687
Other intangible assets (including goodwill) (included in other gains and losses)	864,352	57,621
	$1,281,518	$2,268,727

g. Items that were reclassified to other comprehensive income

	For the Year Ended December 31	
	2013	2012
Exchange differences on translating foreign operations		
Exchange differences arising during the year	$1,680,660	$(1,089,693)
Reclassification adjustments relating to foreign operations disposed of in the year	(31,248)	-
	$1,649,412	$(1,089,693)
Available-for-sale financial assets		
Net fair value gain on available-for-sale financial assets during the year	$42	$11,408
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	(11,779)	(4,631)
	$(11,737)	$6,777
Cash flow hedges		
Fair value gains arising during the year	$-	$204,519
Reclassification adjustments for amounts recognized in profit or loss	(194,052)	(10,467)
	$(194,052)	$194,052

26. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2013	2012
Current tax		
In respect of the current period	$1,432,715	$3,948,447
In respect of the prior periods	85,656	(151,465)
	1,518,371	3,796,982
Deferred tax		
In respect of the current period	(390,230)	(662,607)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	(1,298,103)
	(390,230)	(1,960,710)
Income tax recognized in profit or loss	$1,128,141	$1,836,272

The income tax for the years ended December 31, 2013 and 2012 can be reconciled to the accounting profit as follows:

	For the Year Ended December 31	
	2013	2012
(Loss) profit before income tax	$(195,644)	$19,458,065
Income tax calculated at 17%	-	3,307,871
Effect of expenses that were not deductible in determining taxable profit	210,430	398,686
Effect of temporary differences	(152,462)	(2,052,711)
Effect of investment tax credits	(1,126,249)	(1,351,783)
Effect of loss carryforward	(2,298)	(6,695)
Effect of income that is exempt from taxation	(501)	(314,340)
Additional income tax under the Alternative Minimum Tax Act	-	46,334
Additional 10% income tax on unappropriated earnings	1,126,249	2,315,062
Effect of Alternative Minimum Tax rate changes from 10% to 12% on deferred income tax (effective in 2013)	-	(1,298,103)
Effect of different tax rates of subsidiaries operating in other jurisdictions	987,316	943,416
Adjustments for prior years' tax	85,656	(151,465)
Income tax recognized in profit or loss	$1,128,141	$1,836,272

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2013	2012
Deferred tax		
Recognized in current year		
Actuarial gain and loss (tax benefit)	$(1,794)	$(915)

c. Current tax assets and liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Current tax assets			
Tax refund receivable	$238,085	$61,532	$263,116
Current tax liabilities			
Income tax payable	$1,040,128	$2,713,373	$10,570,682

d. Deferred tax balances

The movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2013 and 2012 were as follows:

	2013					
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Disposal of Subsidiaries	Translation Adjustment	Closing Balance
Deferred tax assets						
Temporary differences						
Unrealized royalties	$2,985,884	$(556,451)	$-	$-	$-	$2,429,433
Unrealized marketing expenses	2,336,469	(57,711)	-	-	60,145	2,338,903
Unrealized warranty expense	859,853	(162,739)	-	-	15,320	712,434
Allowance for loss on decline in value of inventory	756,462	(220,526)	-	-	16,100	552,036
Unrealized profit	365,524	(63,257)	-	-	-	302,267
Unrealized salary and welfare	357,322	8,236	-	(1,416)	10,783	374,925
Unrealized contingent losses on purchase orders	70,779	29,166	-	-	-	99,945
Others	294,018	158,624	(915)	(3,295)	(42,758)	405,674
Loss carryforwards	484	1,449,272	-	(508)	370	1,449,618
Investment credits	663,047	(663,047)	-	-	-	-
	$8,689,842	$(78,433)	$(915)	$(5,219)	$59,960	$8,665,235
Deferred tax liabilities						
Temporary differences						
Unrealized gain on investments	$470,743	$(407,873)	$-	$-	$16,580	$79,450
Financial assets at FVTPL	2,961	16,515	-	-	-	19,476
Defined benefit plans	35,034	(17,227)	(2,709)	-	-	15,098
Others	139,198	(60,078)	-	(2,622)	(39,400)	37,098
	$647,936	$(468,663)	$(2,709)	$(2,622)	$(22,820)	$151,122

	2012				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Translation Adjustment	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized marketing expenses	$2,279,832	$67,928	$-	$(11,291)	$2,336,469
Unrealized royalties	1,981,614	1,004,270	-	-	2,985,884
Unrealized warranty expense	920,517	(59,157)	-	(1,507)	859,853
Allowance for loss on decline in value of inventory	510,613	219,792	-	26,057	756,462
Unrealized salary and welfare	233,111	92,109	-	32,102	357,322
Unrealized profit	173,146	192,378	-	-	365,524
Unrealized contingent losses on purchase orders	135,490	(64,711)	-	-	70,779
Others	76,818	167,660	915	48,625	294,018
Loss carryforwards	7,404	(6,793)	-	(127)	484
Investment credits	1,433	661,614	-	-	663,047
	$6,319,978	$2,275,090	$915	$93,859	$8,689,842
Deferred tax liabilities					
Temporary differences					
Unrealized gain on investments	$240,760	$234,852	$-	$(4,869)	$470,743
Financial assets at FVTPL	43,668	(40,707)	-	-	2,961
Defined benefit plans	31,276	3,758	-	-	35,034
Others	24,557	116,477	-	(1,836)	139,198
	$340,261	$314,380	$-	$(6,705)	$647,936

e. Items for which no deferred tax assets have been recognized

	December 31, 2013	December 31, 2012	January 1, 2012
Loss carryforward	$553,280	$95,455	$98,419
Investment credits			
Purchase of machinery and equipment	$-	$-	$317
Research and development	-	981,627	3,123,277
	$-	$981,627	$3,123,594
Deductible temporary differences	$4,587,454	$5,341,763	$7,823,676

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

Loss carryforwards as of December 31, 2013 comprised of:

Remaining Carrying	Expiry Year
$65,915	2014
104,266	2015
2,447,376	2018
7,668,179	2023
130,169	2033
$10,415,905	

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

Item Exempt from Corporate Income Tax	Expiry Year
Sales of wireless and smartphone which has 3.5G and GPS function	2010.01.01-2014.12.31
Sales of wireless and smartphone which has 3.5G and GPS function	2015.01.01-2018.09.30

g. Unrecognized deferred tax liabilities associated with investments

As of December 31, 2013, December 31, 2012 and January 1, 2012, the unrecognized deferred tax liability for all taxable temporary differences associated with investments in subsidiaries were NT$559,255 thousand, NT$297,402 thousand and NT$588,125 thousand, respectively.

h. Integrated income tax

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

	December 31, 2013	December 31, 2012	January 1, 2012
Unappropriated earnings generated on and after January 1, 1998	$47,282,820	$53,630,777	$75,687,478
Balance of ICA	$6,573,169	$5,966,033	$2,523,575

The actual creditable ratio for distribution of earnings of 2012 was 13.47%.

Under Income Tax Act, for distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Company was based on the balance of the ICA as of the date of dividend distribution.

i. Income tax assessments

HTC's income tax returns through 2010 had been assessed by the tax authorities. However, HTC disagreed with the tax authorities' assessment on its returns for unappropriated earnings of 2009 and applied for the administrative remedial. Nevertheless, under the conservatism guideline, HTC adjusted its income tax for the tax shortfall stated in the tax assessment notices.

The income tax returns of CGC, HTC Investment Corporation and HTC I Investment Corporation for the years through 2011 have been assessed and approved by the tax authorities.

27. (LOSS) EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2013	2012
Basic (loss) earnings per share	$(1.60)	$20.21
Diluted (loss) earnings per share	$(1.60)	$20.12

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

Net (Loss) Profit for the Years

	For the Year Ended December 31	
	2013	2012
(Loss) profit for the year attributable to owners of the parent	$(1,323,785)	$ 16,813,575

Shares

	For the Year Ended December 31	
	2013	2012
Weighted average number of ordinary shares used in computation of basic (loss) earnings per share	829,082	831,980
Effect of dilutive potential ordinary shares:		
Bonus issue to employees	-	3,748
Weighted average number of ordinary shares used in the computation of diluted (loss) earnings per share	829,082	835,728

If the Company might settle the bonuses paid to employees by cash or shares, the Company presumed that the entire amount of the bonus would be settled in shares and the resulting potential shares should be included in the weighted average number of outstanding shares used in the computation of diluted earnings per share, if the shares had a dilutive effect. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

28. SHARE-BASED PAYMENT ARRANGEMENTS

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

Information on employee share options was as follows:

	For the Year Ended December 31	
	Number of Options (In Thousands)	Weighted average Exercise Price (NT$)
Balance at January 1	-	$-
Options granted during the year	15,000	149
Balance at December 31	15,000	
Options exercisable, end of the year	-	
Weighted-average fair value of options granted per unit (NT$)	$43.603	

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

	December 31, 2013	December 31, 2012	January 1, 2012
Range of exercise price (NT$)	$149	$-	$-
Weighted-average remaining contractual life (years)	6.8 years	-	-

Options granted in November 2013 were priced using the trinomial option pricing model and the inputs to the model were as follows:

	November 2013
Grant-date share price (NT$)	$149
Exercise price (NT$)	149
Expected volatility	45.83%
Expected life (years)	7 years
Expected dividend yield	5.00%
Risk-free interest rate	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.

Compensation cost recognized was $26,742 thousand for the year ended December 31, 2013.

29. BUSINESS COMBINATIONS

Subsidiaries Acquired

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

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

Assets Acquired and Liabilities Assumed at the Date of Acquisition

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

Goodwill Arising on Acquisition

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

Net Cash Outflow on Acquisition of Subsidiary

	For the Year Ended December 31	
	2013	2012
Consideration paid in cash	$-	$45,090
Less: Cash and cash equivalent balances acquired	-	(69)
	$-	$45,021

Impact of Acquisition on the Results of the Company

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

	Year Ended December 31, 2012
Revenue	
FunStream Corporation	$-
Net loss	
FunStream Corporation	$(43)

Had these business combinations been in effect at the beginning of the annual reporting period, the results of acquiree included in the consolidated statements of comprehensive income were as follows. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that actually would have been achieved had the acquisition been completed, nor is it intended to be a projection of future results.

	Year Ended December 31, 2012
Revenue	
FunStream Corporation	$-
Net loss	
FunStream Corporation	$(43)

30. DISPOSAL OF SUBSIDIARIES

In September 2013, the Company sold its 100% stake in Saffron Media Group Ltd. for US$47,000 thousand to CDMG Holdings UK Limited. Saffron Media Group Ltd is a provider of digital multimedia delivery services.

The Company and CHT each had held 50% share of Huada, respectively. In March 2012, Huada held a stockholders' meeting and re-elected its directors and supervisors. As a result, the investment type of the Company was changed to joint venture and the Company continued to account for this investment by the equity method.

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

Consideration Received

	Saffron Media Group Ltd.	Huada Digital Corporation	Beats Electronics, LLC
Cash and cash equivalents	$223,970	$-	$4,498,923
Deferred sales proceeds	1,179,573	-	-
	$1,403,543	$-	$4,498,923

At the completion of sales of Saffron Media Group Ltd., CDMG Holdings UK Limited paid HTC US$7,500 thousand in cash plus a purchaser note (the "Note") with five years term and 6% interest rate per annum, which was classified as "long-term receivable", in the amount of US$39,500 thousand. The Note and interest payment will be made on due date. The Note and accrued interest were secured by pledge of the shares obtained by the buying party in this transaction.

Three-year non-recourse secured promissory notes (the "Notes"), totaling US$150,000 thousand, were issued by the buying party for the above buy back of Beats Electronics, LLC and accounted for under "long-term receivable". These notes payable, bear interest based on LIBOR plus 1%, was secured by pledge of interest obtained by the buying party in this transaction. The Notes were received in full in November 2013.

Analysis of Asset and Liabilities Over Which Control Was Lost

	Saffron Media Group Ltd.	Huada Digital Corporation	Beats Electronics, LLC
Current assets			
Cash and cash equivalents	$79,704	$501,425	$146,184
Other current assets	105,670	123	5,928,728
Non-current assets	1,120,421	-	9,966,683
Current liabilities	(86,324)	(170)	(4,437,874)
Net assets disposed of	$1,219,471	$501,378	$11,603,721

Gain (Loss) on Disposal of Subsidiary

	Saffron Media Group Ltd.	Huada Digital Corporation	Beats Electronics, LLC
Consideration received	$1,403,543	$-	$4,498,923
Net assets disposed of	(1,219,471)	(501,378)	(11,603,721)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary	(8,636)	-	-
Non-controlling interests	-	250,689	1,550,253
Remaining investment measured at fair value	-	250,689	5,340,277
Gain (loss) on disposal	$175,436	$-	$(214,268)

In July 2012, the Company sold back 25% of Beats Electronics, LLC shares to the founding members of Beats Electronics, LLC for US$150,000 thousand with a cost amounting to US$157,144 thousand (including initial investment cost of US$150,000 thousand and an accumulated gain of US$7,144 thousand on equity method investment). This transaction resulted in a loss on disposal of US$7,144 thousand (NT$214,268 thousand).

Net Cash Inflow (Outflow) on Disposal of Subsidiary

	For the Year Ended December 31	
	2013	2012
Consideration received in cash and cash equivalents	$223,970	$-
Add: Collection of notes receivable	4,498,923	-
Less: Cash and cash equivalent balances disposed of	(79,704)	(647,609)
	$4,643,189	$(647,609)

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

a. Financial instruments not carried at fair value

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

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

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

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

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

December 31, 2013

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$-	$162,297	$-	$162,297
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$239	$-	$-	$239

December 31, 2012

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

January 1, 2012

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

There were no transfers between Level 1 and 2 for the years ended December 31, 2013 and 2012.

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed corporate bonds). Where such prices were not available, valuation techniques were applied. The estimates and assumptions used by the Company are consistent with those that market participants would use in setting a price for the financial instrument;

- The fair values of derivative instruments were calculated using quoted prices. Where such prices were not available, a discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. The estimates and assumptions used by the Company were consistent with those that market participants would use in setting a price for the financial instrument;

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

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

Categories of Financial Instruments

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets			
FVTPL-Held for trading	$162,297	$6,950	$256,868
Derivative instruments in designated hedge accounting relationships	-	204,519	-
Held-to-maturity investments	-	101,459	204,597
Loans and receivables (Note 1)	83,114,076	111,465,267	154,423,936
Available-for-sale financial assets (Note 2)	4,603,300	4,343,006	4,144,964
Financial liabilities			
Amortized cost (Note 3)	84,824,794	113,247,237	126,552,729

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other current financial assets, note and trade receivables, other receivables and refundable deposits.

Note 2: The balances included available-for-sale financial assets and the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, 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 Department of Financial and Accounting provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through analyzing the exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The Company 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, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits 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 Department of Financial and Accounting reported 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 has 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 at the end of the reporting period please refer to Note 37.

Sensitivity analysis

The Company was mainly exposed to the Currency United Stated dollars ("USD"), Curreny Euro ("EUR"), Currency Renminbi ("RMB") and Currency Japanese yen ("JPY").

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

	Profit or Loss (1)	Equity (2)
Year ended December 31, 2013		
USD	$54,355	$-
EUR	(18,430)	-
RMB	(24,673)	-
JPY	3,377	-
Year ended December 31, 2012		
USD	52,628	(27,776)
EUR	(4,805)	-
RMB	(34,158)	-
JPY	(1,519)	25,711

1) This was mainly attributable to the exposure outstanding on each currency receivables and payables, which were not hedged at the end of the reporting period.
2) This was mainly as a result of the changes in fair value of derivative instruments designated as hedging instruments in cash flow hedges.

b. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As of December 31, 2013, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and the carrying amount of financial assets reported on consolidated balance sheet. 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 are disclosed in the Note 13.

c. Liquidity risk

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

1) Liquidity risk tables

The following tables detail the Company's remaining contractual maturity for its derivative financial liabilities and non-derivative financial liabilities with agreed repayment periods. The tables 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. The tables included both interest and principal cash flows.

December 31, 2013

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$13,087,630	$33,188,221	$-
Other payables	14,813,806	23,219,193	-
Other current liabilities	74,952	184,577	-
Guarantee deposits received	-	-	256,415
	$27,976,388	$56,591,991	$256,415

December 31, 2012

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

January 1, 2012

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

2) Bank credit limit

	December 31, 2013	December 31, 2012	January 1, 2012
Unsecured bank general credit limit			
Amount used	$1,697,088	$1,572,461	$1,892,407
Amount unused	45,647,802	45,104,312	10,899,663
	$47,344,890	$46,676,773	$12,792,070

33. RELATED-PARTY TRANSACTIONS

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

Sales

	For the Year Ended December 31	
	2013	2012
Key management personnel	$2,002	$-
Other related parties - Employees' Welfare Committee	23,454	220,037
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	12,439	2,242,971
	$37,895	$2,463,008

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

	December 31, 2013	December 31, 2012	January 1, 2012
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$1,309	$221,050	$473

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 given or received for trade receivables from related parties. No bad debt expense had been recognized for the years ended December 31, 2013 and 2012 for the amounts owed by related parties.

Purchase

	For the Year Ended December 31	
	2013	2012
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$62,030	$63,675

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

	December 31, 2013	December 31, 2012	January 1, 2012
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$8,303	$19,269	$-

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

Loans to Related Parties

	December 31, 2013	December 31, 2012	January 1, 2012
Associates			
Principal	$-	$6,554,025	$-
Interest receivables	-	46,068	-
	$-	$6,600,093	$-

On July 19, 2012, the Company's board of directors passed a resolution to offer US$225,000 thousand short-term loan to Beats Electronics, LLC to support the transition of Beats Electronics, LLC into a product company. This loan was secured by all the assets of Beats Electronics, LLC. Term loan must be repaid in full no later than one year from signing date of loan agreement and the repayment can be made in full at any time during the term of the loan or at the repayment date. The calculation of interest is based on LIBOR plus 1.5%, 3.5%, 5.5% and 7.5% for the first quarter to the fourth quarter, respectively. The principal and interest were received in full in June 2013. The interest income amounted to NT$211,139 thousand and NT$82,027 thousand for the years ended December 31, 2013 and 2012, respectively.

Compensation of Key Management Personnel

	For the Year Ended December 31	
	2013	2012
Short-term benefits	$577,638	$618,338
Post-employment benefits	2,979	9,560
Other long-term benefits	-	-
Termination benefits	165	-
Share-based payments	5,634	-
	$586,416	$627,898

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

Acquisition of Property, Plant and Equipment

	For the Year Ended December 31	
	2013	2012
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$3,238	$61,155

As of December 31, 2012, the unpaid amount was NT$2,127 thousand.

Other Related-party Transactions

a. To enhance product diversity, the Company entered into a trademark and technology license agreement with associates and other related parties. The royalty expense was NT$219,026 thousand and NT$271,701 thousand for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2012 the amount of unpaid royalty was NT$130,960 thousand.

b. Other related parties provide business consulting service to the Company. The business consulting service fees were NT$2,748 thousand and NT$4,036 thousand for the years ended December 31, 2013 and 2012, respectively.

As of December 31 and January 1, 2012, the unpaid business consulting service fees were NT$3,398 thousand, NT$210 thousand, respectively.

c. The Company leased staff dormitory owned by a related party under an operating lease agreement. The term of the lease agreement is from April 2012 to March 2015 and the rental payment is determined at the prevailing rates in the surrounding area. The Company recognized and paid rental expenses amounting to NT$5,209 thousand for the years ended December 31, 2013 and 2012, each.

d. In October, 2013, the Company sold back all of shares in Beats Electronics, LLC to Beats Electronics, LLC for US$265,000 thousand. This transaction resulted in the recognition of a gain on disposal amounting to NT$2,637,673 thousand. For the related information, please refer to Note 16.

34. PLEDGED ASSETS

To protect the rights and interests of its employees, In September 2012, the Company deposited unpaid employee bonus in a new trust account. The trust account, which is under other current financial assets, had amounted to NT$2,359,041 thousand and NT$3,645,820 thousand as of December 31, 2013 and 2012 respectively.

As of December 31, 2013, December 31, 2012 and January 1, 2012 the Company had provided time deposits of NT$1,090 thousand, NT$3,700 thousand and NT$68,700 thousand had been classified as other current financial assets, respectively, as collateral for rental deposits and as part of the requirements for the Company to get a certificate from the National Tax Administration of the Northern Taiwan Province stating that it had no pending income tax.

35. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

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

In March 2012, Washington Court granted on the Company's summary judgment motion and ruled on non-infringement of two of patents-in-suit. 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.

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

b. From May 2011 onwards, Nokia Corporation ("Nokia") and the Company filed patent infringement actions against the other respectively in the U.S. International Trade Commission ("ITC"), U.S. District Court for the District of Delaware, German district courts, and English High Court. On February 8, 2014, the two companies reached a settlement that included the dismissal of all current lawsuits and a patent and technology collaboration agreement. The Company will make payments to Nokia and the collaboration will involve the Company's LTE patent portfolio, further strengthening Nokia's licensing offering. The companies will also explore future technology collaboration opportunities.

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

In May 2010, Flashpoint filed the first ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. In November 2011, the ITC Committee issued its Final Determination and ruled that the Company does not infringe patents owned by Flashpoint.

In May 2012, Flashpoint filed another ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. In September 2013, the ITC Administrative Law Judge made an Initial Determination that favors HTC on two of the three patents in suit. On the matter of the third patent, only two End-of-Life HTC device models are potentially impacted. The Company believes the Committee will made a final determination that favors HTC; the final determination will be granted on March 14, 2014. Meanwhile, the Company has also worked on design around solution for all future products to ensure no business disruption in the US market.

d. 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

In February 2014, the Company and Nokia Corporation reached a settlement to dismiss all pending patent litigations between them and entered into a patent technology collaboration agreement. For more details, please refer to Note 35.

The Company had repurchased company shares from the open market for transferring to employees and some of them had not been transferred before the expiry time. The Board of Directors approved the retirement of 1,998 thousand treasury stocks on February 10, 2014.

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

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

	December 31, 2013		December 31, 2012		January 1, 2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets						
Monetary items						
USD	$2,109,805	29.93	$2,967,669	29.13	$3,143,462	30.28
EUR	301,083	41.27	317,011	38.42	498,383	39.19
JPY	3,089,002	0.2851	10,626,742	0.3383	373,750	0.3906
RMB	884,849	4.94	2,142,619	4.68	1,344,825	4.77
Non-monetary items						
USD	130,415	29.93	123,781	29.13	89,493	30.28
Investments accounted for by the equity method						
USD	-	-	193,639	29.13	2,500	30.28
Financial liabilities						
Monetary items						
USD	1,856,825	29.93	3,107,166	29.13	3,372,400	30.28
EUR	257,486	41.27	297,681	38.42	583,741	39.19
JPY	6,432,408	0.2851	17,276,121	0.3383	678,211	0.3906
RMB	1,446,364	4.94	2,310,079	4.68	1,463,205	4.77

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	Contract Term	Description
Apple, Inc.	November 11, 2012 - November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalty payable as prescribed.
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 - December 31, 2016 January 1, 2014 - December 31, 2018	Authorization to use wireless technology, like GSM; royalty payment based on agreement. 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.

39. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Under IFRS 8 - "Operating Segments," the Company is organized and managed as a single reportable business segment. The Company's operations are mainly in the research, design, manufacture and sale of smart mobile devices and the operating revenue is more than 90 percent of the total revenue.

Operating segment financial information was as follows:

Geographical Areas

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

	December 31, 2013	December 31, 2012	January 1, 2012
Taiwan	$31,928,554	$30,004,905	$26,579,662
Country Y	4,808,349	5,077,921	5,236,960
Country Z	411,746	1,249,807	10,271,855
Others	8,816,216	11,218,055	13,049,761
	$45,964,865	$47,550,688	$55,138,238

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

	For the Year Ended December 31	
	2013	2012
Taiwan	$19,882,726	$20,403,572
Country Y	33,008,560	53,557,704
Country Z	48,673,014	68,200,497
Others	101,838,348	146,858,402
	$203,402,648	$289,020,175

Major Customers

The Company did not have transactions with single external customers whose revenues amounted to 10 percent or more of the Company's total revenues for the years ended December 31, 2013 and 2012.

40. FIRST-TIME ADOPTION OF IFRSs

a. Basis of the preparation for financial information under IFRSs

The Company's consolidated financial statements for the year ended December 31, 2013 were the first IFRS financial statements. The Company not only follows the significant accounting policies stated in Note 4 but also applies the requirements under IFRS 1 "First-time Adoption of IFRS" as the basis for the preparation.

b. Effect of the transition from ROC GAAP to IFRSs

After transition to IFRSs, the effect on the Company's consolidated balance sheets as of December 31, and January 1, 2012 as well as the consolidated statements of comprehensive income for the year endedDecember 31, 2012, was stated as follows:

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

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

(Continued)

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

(Concluded)

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

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

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		Note
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	
Liabilities and stockholders' equity					Liabilities and stockholders' equity	
Current liabilities					Current liabilities	
Note and trade payables	$73,618,197	$-	$-	$73,618,197	Note and trade payables	
Other payables	39,173,722	93,451	-	39,267,173	Other payables	f)
Income tax payables	2,713,373	-	-	2,713,373	Current tax liabilities	
-	-	-	8,881,514	8,881,514	Provisions - current	e)
Other current liabilities	10,669,620	-	(8,881,514)	1,788,106	Other current liabilities	e)
Total current liabilities	126,174,912	93,451	-	126,268,363	Total current liabilities	
Non-current liabilities					Non-current liabilities	
-	-	-	647,936	647,936	Deferred tax liabilities	b)
Guarantee deposits received	59,999	-	-	59,999	Guarantee deposits received	
Total non-current liabilities	59,999	-	647,936	707,935	Total non-current liabilities	
Total liabilities	126,234,911	93,451	647,936	126,976,298	Total liabilities	
Stockholders' equity					Equity attributable to owners of the parent	
Common stock	8,520,521	-	-	8,520,521	Common stock	
Capital surplus	16,619,594	(18,037)	-	16,601,557	Capital surplus	i)
Retained earnings	70,148,728	(46,697)	-	70,102,031	Retained earnings	c), d), f), i), j)
Other equity					Other equity	
Cumulative translation adjustments	(1,057,559)	(32,134)	-	(1,089,693)	Exchange differences on translating foreign operation	j)
Net losses not recognized as pension cost	(347)	347	-	-	-	d)
Unrealized gains or losses from available-for-sale financial assets	9,716	-	-	9,716	Unrealized gains or losses from available-for-sale financial assets	
Effective portion of gains and losses on hedging instruments in a cash flow hedge	194,052	-	-	194,052	Effective portion of gains and losses on hedging instruments in a cash flow hedge	
Treasury shares	(14,065,490)	-	-	(14,065,490)	Treasury shares	
Total equity attributable to stockholders of the parent	80,369,215	(96,521)	-	80,272,694	Total equity attributable to owners of the parent	
Total	$206,604,126	$(3,070)	$647,936	$207,248,992	Total	

(Concluded)

3) Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2012

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

4) Optional exemptions from IFRS 1

Under IFRS 1, an entity that adopts IFRS for the first time should apply all IFRSs in preparing financial statements and should make adjustments retrospectively; however, the entity may select to use certain optional exemptions and mandatory exemptions stated in IFRS 1. The main optional exemptions the Company adopted were as follows:

a) Business combinations

The Company elected not to apply IFRS 3 - Business Combination retrospectively to business combinations that occurred before the date of transition to IFRSs. Thus, in the opening balance sheet, the amount of goodwill generated from past business combinations remains the same as that shown under ROC GAAP as of December 31, 2011.

b) Goodwill arising from business combinations and fair value adjustments

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

c) Share-based payment transactions

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

d) Employee benefits

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

e) Accumulated balances of exchange

differences resulting from translating the financial statements of a foreign operation

The Company elected to reset the accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation to zero at the date of transition to IFRSs, and the reversal has been used to offset accumulated earnings as of December 31, 2011. Thus, the gain or loss on any subsequent disposal of foreign operations should exclude translation differences that arose before the date of transition to IFRSs.

5) Explanations of significant reconciling items in the transition to IFRSs

Material differences between the accounting policies under ROC GAAP and the accounting policies adopted under IFRSs were as follows:

a) Under ROC GAAP, the term "cash" used in the financial statements includes cash on hand, demand deposits, check deposits, time deposits that are cancellable but without any loss of principal and negotiable certificates of deposit that are readily salable without any loss of principal. However, under IFRSs, cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition. Some certificates of deposit the Company held had maturity of more than 3 months from the date of investment. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$25,474,750 thousand and NT$2,911,924 thousand in "cash and cash equivalents" and increases by the same amounts in "other current financial assets."

b) Under ROC GAAP, a deferred income tax asset or liability should be classified as current or noncurrent in accordance with the classification of the related asset or liability for financial reporting. However, a deferred income tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent on the basis of the expected length of time before it is realized or settled. By contrast, under IFRSs, a deferred income tax asset or liability is always classified as noncurrent. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$2,246,196 thousand and NT$3,530,215 thousand in "deferred income tax asset - current" and increases by the same amounts in "deferred income tax assets - non-current."

Under ROC GAAP, deferred tax assets are recognized in full but are reduced by a valuation allowance account if there is evidence showing that a portion of or all the deferred tax assets will not be realized. However, under IFRSs, an entity recognizes only to the extent that it is highly probable that taxable profits will be available against which the deferred tax assets can be used; thus, a valuation allowance account is not used. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$11,132,656 thousand and NT$6,445,409 thousand in "deferred income tax assets" and in the valuation allowance account. Also, as of January 1 and December 31, 2012, the reclassification adjustment resulted in increases of NT$340,261 thousand and NT$647,936 thousand in "deferred income tax assets" and "deferred income tax liabilities".

c) Under ROC GAAP, deferred income tax assets or liabilities from intergroup sales are recognized for the change in tax basis using the tax rate of ROC. However, under IFRSs, the buyer's tax rates are used instead. Thus, the IFRS adjustment as of January 1, 2012 resulted in increases of NT$58,000 thousand each in "deferred income tax assets" and "accumulated earnings." In addition, the evaluation adjustment made on December 31, 2012 resulted in increases of NT$83,000 thousand in "deferred income tax assets" and in "accumulated earnings" and a decrease in "income tax" by NT$25,000 thousand.

d) Under IFRS 1, the Company elected to recognize all cumulative actuarial gains and losses relating to employee benefits at the date of transition to IFRSs. Thus, as of January 1, 2012, the IFRS adjustment resulted in a decrease of NT$83,687 thousand in "accumulated earnings" due to decreases in "deferred pension cost" by NT$342 thousand, "defined benefit assets" by NT$83,052 thousand and "net loss not recognized as pension cost" by NT$293 thousand.

As of December 31, 2012, the IFRS adjustment resulted in a decrease in "accumulated earnings" by NT$86,417 thousand due to decreases in "deferred pension cost" by NT$269 thousand, "defined benefit assets" by NT$86,716 thousand and "net loss not recognized as pension cost" by NT$347 thousand and increase in "deferred income tax assets" by NT$915 thousand. In addition, this adjustment resulted in decreases in "cost of revenues" by NT$473 thousand, "selling and marketing expenses" by NT$526 thousand, "general and administrative expenses" by NT$193 thousand and "research and developing expenses" by NT$545 thousand.

e) Under ROC GAAP, if an obligation is probable (i.e., likely to occur) and the amount could be reasonably estimated, it is a contingent liability and should be accrued for, but under which account is not clearly defined. However, under IFRSs, it defines "provisions" as obligations that are probable (i.e., more likely than not) and the amount could be reasonably estimated. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$15,133,275 thousand and NT$8,881,514 thousand, respectively, in "other current liabilities" and increases by the same amounts in "provisions - current."

f) Accumulated compensated absences are not addressed in existing ROC GAAP; thus, the Company has not recognized the expected cost of employee benefits in the form of accumulated compensated absences at the end of reporting periods. However, under IFRSs, when the employees render services that increase their entitlement to future compensated absences, an entity should recognize the expected cost of employee benefits at the end of reporting periods. Thus, as of January 1, 2012, the IFRS adjustment resulted in an increase in "accrued expenses" by NT$99,321 thousand and a decrease by the same amount in "accumulated earnings." In addition, the evaluation adjustment made on December 31, 2012 resulted in (a) a decrease in "accumulated earnings" by NT$93,451 thousand due to an increase of "accrued expenses"; (b) decreases in "cost of revenues" by NT$5,299 thousand and "selling and marketing expenses" by NT$4,843 thousand and (c) increases in "general and administrative expenses" by NT$557 thousand and "research and developing expenses" by NT$3,715 thousand.

g) Under ROC GAAP, deferred charges are classified under other assets. Transition to IFRSs, deferred charges are classified under "property, plant and equipment", "other intangible assets" and "other assets - other" according to the nature. Thus, as of January 1 and, December 31, 2012, the Company reclassified NT$410,217 thousand and NT$571,485 thousand, respectively, of "deferred charges" to "property, plant and equipment"; and reclassified NT$207,033 thousand and NT$162,765 thousand, respectively, of "deferred charges" to "other intangible assets" and reclassified NT$146,266 thousand and NT$162,914 thousand, respectively, of "deferred charges" to "other assets - other".

h) The Company purchased fixed assets and made prepayments, pursuant to the "Rules Governing the Preparation of Financial Statements by Securities Issuers." Such prepayments are presented as "properties". Transition to IFRSs, the prepayments are classified under "other assets - other". Thus, as of January 1 and December 31, 2012, the Company reclassified NT$207,062 thousand and NT$232,011 thousand, respectively, of "property, plant and equipment" to "other assets - other".

i) Under ROC GAAP, if an investee issues new shares and an investor does not purchase new shares proportionately, capital surplus and the long-term equity investment accounts should be adjusted for the change in the investor's holding percentage and interest in the investee's net assets. By contrast, under IFRSs, a reduction of investor's ownership interest that results in loss of significant influence on or control over an investee would be treated as a deemed disposal, with the related gain or loss recognized in profit or loss. An entity may elect not to adjust the difference retrospectively, and the Company elected to use the exemption from retrospective application. The IFRS adjustment resulted in a decrease of capital surplus - long-term equity investments of NT$18,037 thousand and a corresponding increase of accumulated earnings by related rules.

j) The Company elected to reset the accumulated balances of exchange differences resulting from translating foreign operation to zero at the date of transition to IFRSs, and the reversal has been used to adjust accumulated earnings as of January 1, 2012. The gain or loss on any subsequent disposals of any foreign operations should exclude accumulated balances of exchange differences resulting from translating foreign operation that arose before the date of transition to IFRSs. Therefore, the IFRS adjustment resulted in a decrease in accumulated balances of exchange differences resulting from translating foreign operation and an increase in accumulated earnings by NT$32,134 thousand each.

6) Material adjustment to consolidated statement of cash flows

Under ROC GAAP, using the indirect method, the interests and dividends received and interests paid were usually classified as operating cash flows, and dividends paid were usually classified as financial cash flows and supplemental cash flows information is provided for interests paid. However, under IFRS 7, cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period either as operating, investing or financing activities. Thus, for the year ended December 31, 2012, the cash flows of interests and dividends received in the amount of NT$589,899 thousand and NT$22,441 thousand were disclosed separately.

As of January 1 and December 31, 2012, time deposits with original maturities more than three months amounted to NT$25,474,750 thousand and NT$2,911,924 thousand, respectively, and not to be classified as "cash and cash equivalents" in accordance with IFRSs since they are held for investment purpose. For more details of this adjustment, please refer to Note 40 section b. 5) a).

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

HTC's Code of Conduct

HTC's Code of Conduct is a guideline to provide high ethical standards for all employees in conducting HTC business activities. All employees of HTC Corp., including branches and subsidiary companies, must follow these ethical standards regardless of the employees' position, grade level, and location. This Code includes three major sections: the General Moral Imperative, Vendors/Suppliers and Customers Relationship, and Conflict of Interests.

The General Moral Imperative section requires that HTC commits to providing a safe and healthy work environment and equal opportunities, and that it establishes a behavioral code for the treatment of knowledge about the company's assets/properties/information.

The Vendors/Suppliers and Customer Relationship section requires that HTC commits to maintaining a fair, legal, and long-term relationship with its vendors/suppliers and customers to the benefit of all parties.

The Conflict of Interest section describes the behavioral rules for employees in situations of divided interest.

This Code is superior to any other local regulations except certain mandatory laws/acts issued by the local government. In such cases, the Talent Management Division should submit the specific local laws/acts to Corporate Talent Management Division in order to waive this specific regulation of the Code in that location. Otherwise, any violation of HTC Code of Conduct and applicable policies may cause disciplinary action up to and including the termination of employment. The employees are responsible for understanding and complying with the HTC Code of Conduct, as well as other applicable HTC policies/rules.

Mandatory Contents

1.0 General Moral Imperatives

While maintaining a work culture that ensures the company's success, HTC strives to treat each employee fairly and with dignity. HTC is also committed to complying with the labor laws of each country it operates in. As well, each employee is responsible for complying with all applicable external and internal laws, and follow up any new revision of company policies.

1.1 Work Environments:

HTC is committed to comply with local laws and regulations to establish a safe and healthy workplace, free from recognized hazards. Furthermore, HTC is thoroughly dedicated to providing employees with a workplace that is free of harassment (including sexual harassment) and discrimination. Any language or behavior of intention to cause hostilities or violations of this policy is strictly prohibited and shall be reported to a responsible authority immediately.

1.2 Corporate Confidentiality:

During the term of employment with HTC and thereafter, each employee must hold in strict confidence and not disclose, directly or indirectly, any "Confidential Information" (as defined below) gained from HTC or its customers or venders/suppliers to any third party without the prior written consent of HTC. "Confidential Information" must be used only for the purpose of executing work for HTC. "Confidential Information" shall mean all business, technical, operational or other information that is not generally known to the public and that an employee develops, has access to, and becomes acquainted with during the term of employment, whether or not such information (A) is owned by HTC, HTC's customers, venders/suppliers, or any third party with which HTC desires to establish a business relationship with; (B) is in oral, written, drawn or electronic media form; (C) is subject matter for the application of patents, trademarks, copyrights, or other intellectual property rights; or (D) is labeled with "Confidential" or an equivalent word. Confidential information may include, but is not limited to the following:

1. Business plans, manufacturing and marketing plans, procurement plans, product roadmaps, product design records, product test plans and reports, product software and source codes, product pricing, product appearance, product specifications, tooling specifications, personnel information, financial information, customer lists, venders/supplier lists, distributor lists, raw materials and product inventory information, all quality records, trade secrets, and other information related to the Company's business activities;
2. Documents, databases, or other related materials to any computer programs or any development stages thereof;
3. Discoveries, concepts, ideas, designs, sketches, engineering drawings, specifications, circuit layouts, circuit diagrams, mechanical drawings, flow charts, production processes, procedures, models, molds, samples, components,trouble shooting guides, chips and other know-how; and
4. Proprietary information of any third party (such as customers or venders/suppliers) that the Company has a duty of confidentiality pursuant to contracts or required by any applicable laws.

1.3 Protection of Property, HTC's Assets, and Personal Information:

Copyrights, patents, trade marks/secrets, the terms of license agreements and any kind of intellectual property are under protection by related laws or regulations; violations are strictly prohibited. The Company's assets are not limited to physical equipment and facilities only, but also include technologies, trademarks, and other invisible concepts & confidential information. The utilization of company assets is for business matters and should be maintained, updated, and recorded properly and regularly. This is also applicable to the use of employee personal data. Those who are dealing with employee data shall consider the business matters and employees' privacy as well. The only exception that permits the revelation of employees' personal data is where such disclosure is required by government laws.

1.4 Equal Opportunity:

HTC's Employment Policy is to comply with all applicable laws. Hiring decisions are based on HTC's business needs and the qualifications of applicants, and HTC strives to provide equal employment opportunities for all applicants and employees without regard to non-job-related factors, such as race, color, social class, language, religion, political affiliation, national origin, gender, sexual orientation, marital status, appearance, disability, previous union membership etc. Everyone must be treated with dignity and respect. This principle applies to all areas of employment, including, but not limited to, recruitment, hiring, training, promotion, compensation, benefits, transfer, and social and recreational programs. All employees should be responsible for the data accuracy and quality in any type of report in all aspects of their daily work. Any intention of misleading or incorrect data is not acceptable and may cause disciplinary action.

1.5 Political Activities:

The Company encourages employees to participate in public activities as responsible citizens. However, HTC employees are prohibited from engaging in political activities on behalf of HTC. The Company is not allowed to donate or engage the political activities in most global operations. Therefore, employees must be aware of that their involvements are on an individual basis, and no contribution or donation to political candidates or parties can be made under the company name. Furthermore, employees must not organize or hold any speeches or activities connected to political activities on Company premises.

2.0 Venders/Suppliers and Customers Relationship

It is a basic principle in Company business operations to maintain a good relationship with our venders/suppliers and customers.

2.1 Firm and Rational Attitude:

In securing and negotiating business, all employees should attempt to establish long-term relationships with our customers and venders/suppliers by providing essential and accurate information about our products and services. Employees shall demonstrate their professionalism with a sincere, firm, and rational attitude while dealing with customers or venders/suppliers. Conflicts caused by emotional languages or behaviors are strictly prohibited.

2.2 Product Quality and Safety:

The Company is committed to pursue excellence and maintain quality at all times. The Company strives to continuously improve the quality of products and service in compliance with the related safety regulations/laws in order to benefit our customers and venders/suppliers and achieve world-class competitiveness. To maintain HTC's valuable reputation and the benefits to our customers and venders/suppliers, all employees must comply with our quality processes and safety requirements.

2.3 Performance of Contracts:

Company contracts must be executed not only in accordance with the requirements of each contract, but also in compliance with all the laws and regulations applicable to our business. Any unfair or unreasonable regulation or condition should be avoided. Purchasing decisions must be made in the best interests of HTC by considering the venders'/suppliers' suitability, quality, price, and delivery of products or services; any personal preferences are not allowed for special offers. Purchasing agreements/sales contracts and related evaluation information should be documented clearly and confidentially. The contract information of customers and venders/suppliers, including but not limited to their names, price, delivery condition, payment terms, are as confidential as Company documents. Every employee must protect this confidential information from misuse and disclosure.

2.4 Gifts, Entertainment and Business Courtesies:

All employees or their family (means employee's spouse, parents, the parents of the spouse, children, siblings, grandparents, grandchildren, and other close relatives and friends) are not allowed to request, accept, or offer bribes or illegal profits (including but not limited to kickbacks, commissions, cash, securities, costly gifts and undue entertainment, or any direct or indirect improper gifts inconsistent with the normal trading course or insider trading) from/ to customers, suppliers/vendors, or anyone in a business relationship in any kind of situation, nor to conduct any behavior that violates his/ her duties and cause damage to HTC and directly or indirectly favor himself/herself, employees of HTC's vendor/supplier/business partner, or related parties. Employees may provide or accept meals or entertainment if these activities are legitimate, consistent with accepted business practices and demonstrably help to build a business relationship.

However, regardless of the amount, employees are not allowed to accept or give kickbacks and bribes, such as(but not limited to) any type of gift, cash, stock, bond or its equivalent, or to participate in any business courtesy that may compromise the employees' judgment or motivate the employees to perform acts prohibited by laws/regulations or HTC policies. Meal expenses between/among colleagues cannot be treated as entertainment expenses.

However, expenditures incurred for entertainment immediately before, during, or after a business meeting are acceptable, if those who will enjoy the entertainment are from another country or continent.

2.5 Business Travel:

All employees are responsible for ensuring that their business travels are intended to further Company business interests, and the business travel and entertainment expenditures shall be reasonable, prudent, and in accordance with applicable Company policies. On behalf of the Company, employees should be aware that certain venues, whose entertainment nature or atmosphere may impact negatively on the Company's reputation, such as a sexually-oriented site or similar environment, are not appropriate for business-related meetings or activities. These venues are not acceptable even if the expenses incurred are not paid by the Company. If the common local custom is to engage in recreational activities (e.g. golf tournaments) for business purposes, then these activities should be minimized when possible in case of the expenses are not paid in personal.

2.6

In the event that any HTC employee is offered/ requested kickbacks, commissions, gifts, or inappropriate offers from a representative of a vendor, supplier or business partner, he/she is required to report the incident to HTC (anti-corruption@htc.com). An internal investigation team will look into the matter, with the employee's identity treated in strict confidentiality.

2.7

Employees are not to solicit or lure other employees in the company to violate their duties.

2.8

Employees who are responsible for the custody or use of any HTC property are not misuse or abuse the company's property.

3.0 Conflict of Interest

All employees must avoid any activity that is or has the appearance of being hostile, adverse, or competitive with the Company, or that interfaces with the proper performance of their duties, responsibilities or loyalties to the Company.

3.1 Outside Employment:

All employees are prohibited to work either part-time or full-time for or receive payments of services from any competitors, customers, venders/suppliers or subcontractors of HTC. If any employee is invited to serve as a lecturer, board member of an outside company, advisory board, committee or agency, he/she must get appropriate approval from the local top manager of Company in advance. Even if an invitation is not listed as above, permission from a top manager is required. In general, employees are not restricted from being members of the boards of charitable or community organizations. HTC also permits employees obtaining appropriate approval to serve as directors of an outside company that is invested in by HTC or is not a competitor or service provider of a competitor.

3.2 Inside Trading:

All employees are not permitted, using their own names or the names of people with whom they have personal relationships, to engage in business ventures the same as or similar to HTC or to invest exceeding five percent of total market value in such a company. Employees are also prohibited from use so-called "Inside Information" to gain personal profit or to influence the independent judgment of business entities, such as investment in competitors, customers, venders/suppliers or subcontractors. "Inside Information" comprises facts that an employee knows, but people outside of HTC may not know, which might be in written form or discussed orally in a meeting. Inside information may also be information received from another company, such as from customers, suppliers or companies with which HTC has a joint research or development program. Therefore, employees may never use inside information to trade or influence the trading of stocks of HTC or other companies and should also not provide "tips" or share inside information with any other person who might trade stock. Insider trading violates company policies and may subject the employee to criminal penalties in accordance with the government's regulations/laws.

3.3 Creditor and debtor relations:

Employees may have debtor and creditor relations with colleagues without interest to help each other for urgent situation, but are not allowed to have creditor or debtor relations with subordinates, customers, suppliers/venders, or anyone in a business relationship, nor introduce such persons (including colleagues)to anyone to enter any debtor- creditor relations.

3.4 Third party invitations, which may reference your role and/or knowledge as an employee at HTC:

If any HTC employee is invited to join external meetings, conferences, seminars, lectures, etc., or if asked to be a host or judge for an event during or outside of office hours, he/she must secure approval from the line manager and local PR team prior to participation.

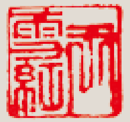
3.5

The company provides employees with a full range of welfare measures such as life insurance, health and convenience services. As employees, you should appreciate the resources provided by the company and do not abuse or misuse the corporate welfare system.

3.6

HTC employees are not allowed to persuade anyone in the company, customers or third-parties such as suppliers or subcontractors to invest in other businesses.

HTC Corporation



Chairperson: Cher Wang