

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2018 and 2017 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
HTC Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and its subsidiaries (collectively referred to as the Company) as of March 31, 2018 and 2017 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods then ended, and related notes, including a summary of significant accounting policies "(collectively referred to as the consolidated financial statements)". Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the financial position of the Company as at March 31, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three-month periods then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China.

Emphasis of Matter

As disclosed in Note 3 to the consolidated financial statements, HTC Corporation and its subsidiaries initially applied the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, Interpretations of IFRS, and Interpretations of IAS endorsed and issued into effect by the FSC. As a result of the retrospective application of accounting policy, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate its consolidated financial statement of the prior reporting periods on the basis of the facts and circumstances that existed as at January 1, 2018. Our review result is not modified in respect of this matter.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 5, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent accountants' review report and consolidated financial statements shall prevail. Also, as stated in Note 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	March 31, 2018 (Reviewed)		December 31, 2017 (Audited)		March 31, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 38,558,837	46	\$ 10,443,227	16	\$ 26,565,598	29
Financial assets at fair value through profit or loss - current (Note 7)	108,518	-	65,199	-	77,332	-
Financial assets at fair value through other comprehensive income - current (Note 9)	355,614	1	-	-	-	-
Available-for-sale financial assets - current	-	-	312,106	-	236,144	-
Debt investments with no active market - current	-	-	-	-	7,582	-
Trade receivables, net (Notes 12 and 36)	4,966,966	6	8,537,096	13	9,046,951	10
Other receivables (Note 12)	282,714	-	103,497	-	231,759	-
Current tax assets	126,814	-	131,901	-	137,458	-
Inventories (Note 13)	5,487,390	7	7,381,426	11	14,923,347	16
Prepayments (Note 14)	1,957,640	2	1,742,986	3	1,593,590	2
Non-current assets held for sale (Note 15)	1,672,688	2	1,647,763	3	1,563,732	2
Other current financial assets (Notes 11 and 37)	7,064,944	9	7,988,363	12	6,576,255	7
Other current assets	156,126	-	135,821	-	70,367	-
Total current assets	<u>60,738,251</u>	<u>73</u>	<u>38,489,385</u>	<u>58</u>	<u>61,030,115</u>	<u>66</u>
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 7)	139,782	-	-	-	-	-
Financial assets at fair value through other comprehensive income - non-current (Note 9)	2,958,177	4	-	-	-	-
Available-for-sale financial assets - non-current	-	-	91	-	96	-
Financial assets measured at cost - non-current (Note 10)	-	-	3,187,240	5	3,266,107	3
Debt investments with no active market - non-current	-	-	-	-	29,570	-
Investments accounted for using equity method (Note 17)	390,314	-	413,120	1	466,341	-
Property, plant and equipment (Note 18)	8,430,444	10	10,798,613	16	11,712,682	13
Investment properties, net (Note 19)	2,142,354	3	-	-	-	-
Intangible assets (Note 20)	1,960,883	2	2,315,441	3	3,316,074	4
Deferred tax assets	3,739,287	5	8,990,648	14	8,996,321	10
Refundable deposits	139,292	-	139,016	-	1,360,583	1
Net defined benefit asset - non-current	25,082	-	18,119	-	45,231	-
Other non-current financial assets (Notes 11 and 37)	145,590	-	-	-	-	-
Other non-current assets (Note 14)	2,261,994	3	2,233,733	3	2,568,848	3
Total non-current assets	<u>22,333,199</u>	<u>27</u>	<u>28,096,021</u>	<u>42</u>	<u>31,761,853</u>	<u>34</u>
TOTAL	<u>\$ 83,071,450</u>	<u>100</u>	<u>\$ 66,585,406</u>	<u>100</u>	<u>\$ 92,791,968</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 21)	\$ -	-	\$ -	-	\$ 2,756,560	3
Financial liabilities at fair value through profit or loss - current (Note 7)	85,646	-	75,184	-	194,631	-
Derivative financial liability for hedging - current (Note 8)	-	-	-	-	12,110	-
Note and trade payables (Notes 22 and 36)	11,376,093	14	14,569,222	22	21,109,467	23
Other payables (Notes 23 and 36)	10,994,507	13	11,681,890	18	13,569,654	15
Current tax liabilities	241,978	-	253,240	-	143,595	-
Provisions - current (Note 24)	2,860,882	4	3,377,201	5	3,143,478	3
Other current liabilities (Notes 15 and 23)	2,693,284	3	2,850,713	4	3,747,735	4
Total current liabilities	<u>28,252,390</u>	<u>34</u>	<u>32,807,450</u>	<u>49</u>	<u>44,677,230</u>	<u>48</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities	74,424	-	47,147	-	85,823	-
Guarantee deposits received	108,740	-	5,681	-	6,289	-
Total non-current liabilities	<u>183,164</u>	<u>-</u>	<u>52,828</u>	<u>-</u>	<u>92,112</u>	<u>-</u>
Total liabilities	<u>28,435,554</u>	<u>34</u>	<u>32,860,278</u>	<u>49</u>	<u>44,769,342</u>	<u>48</u>
EQUITY (Note 25)						
Share capital - ordinary shares	8,209,589	10	8,208,261	12	8,219,042	9
Capital surplus	15,558,554	19	15,551,491	24	15,626,493	17
Retained earnings						
Legal reserve	18,297,655	22	18,297,655	27	18,297,655	20
Unappropriated earnings (accumulated deficits)	15,107,521	18	(6,093,403)	(9)	8,808,880	9
Other equity	(2,559,628)	(3)	(2,268,428)	(3)	(2,929,444)	(3)
Total equity attributable to owners of the parent	54,613,691	66	33,695,576	51	48,022,626	52
NON-CONTROLLING INTERESTS	<u>22,205</u>	<u>-</u>	<u>29,552</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity	<u>54,635,896</u>	<u>66</u>	<u>33,725,128</u>	<u>51</u>	<u>48,022,626</u>	<u>52</u>
TOTAL	<u>\$ 83,071,450</u>	<u>100</u>	<u>\$ 66,585,406</u>	<u>100</u>	<u>\$ 92,791,968</u>	<u>100</u>

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

(With Deloitte & Touche review report dated May 5, 2018)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share) (Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 26 and 36)	\$ 8,788,743	100	\$ 14,530,823	100
OPERATING COST (Notes 13, 27 and 36)	<u>9,063,615</u>	<u>103</u>	<u>12,167,637</u>	<u>84</u>
GROSS (LOSS) PROFIT	<u>(274,872)</u>	<u>(3)</u>	<u>2,363,186</u>	<u>16</u>
OPERATING EXPENSES (Notes 27 and 36)				
Selling and marketing	1,365,465	16	1,271,023	9
General and administrative	895,602	10	875,376	6
Research and development	<u>2,643,025</u>	<u>30</u>	<u>2,574,388</u>	<u>17</u>
Total operating expenses	<u>4,904,092</u>	<u>56</u>	<u>4,720,787</u>	<u>32</u>
OPERATING LOSS	<u>(5,178,964)</u>	<u>(59)</u>	<u>(2,357,601)</u>	<u>(16)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 27)	284,811	3	272,189	2
Other gains and losses (Notes 8, 27 and 31)	31,302,273	356	81,531	-
Finance costs	(1)	-	(2,467)	-
Share of the profit or loss of associate and joint venture (Note 17)	<u>(13,339)</u>	<u>-</u>	<u>(34,392)</u>	<u>-</u>
Total non-operating income and expenses	<u>31,573,744</u>	<u>359</u>	<u>316,861</u>	<u>2</u>
PROFIT (LOSS) BEFORE INCOME TAX	26,394,780	300	(2,040,740)	(14)
INCOME TAX (EXPENSE) BENEFIT (Note 28)	<u>(5,305,216)</u>	<u>(60)</u>	<u>8,195</u>	<u>-</u>
PROFIT (LOSS) FOR THE PERIOD	<u>21,089,564</u>	<u>240</u>	<u>(2,032,545)</u>	<u>(14)</u>
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss:				
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income	22,246	-	-	-

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share) (Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	\$ (187,118)	(2)	\$ (1,805,815)	(12)
Unrealized gain on available-for-sale financial assets	-	-	50,044	-
Cash flow hedge	-	-	(12,882)	-
Other comprehensive loss for the period, net of income tax	<u>(164,872)</u>	<u>(2)</u>	<u>(1,768,653)</u>	<u>(12)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ 20,924,692</u>	<u>238</u>	<u>\$ (3,801,198)</u>	<u>(26)</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO				
Owners of the parent	\$ 21,096,192	240	\$ (2,032,545)	(14)
Non-controlling interests	<u>(6,628)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 21,089,564</u>	<u>240</u>	<u>\$ (2,032,545)</u>	<u>(14)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO				
Owners of the parent	\$ 20,932,039	238	\$ (3,801,198)	(26)
Non-controlling interests	<u>(7,347)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 20,924,692</u>	<u>238</u>	<u>\$ (3,801,198)</u>	<u>(26)</u>
EARNINGS (LOSS) PER SHARE (Note 29)				
Basic	<u>\$ 25.70</u>		<u>\$ (2.47)</u>	
Diluted	<u>\$ 25.31</u>		<u>\$ (2.47)</u>	

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

(With Deloitte & Touche review report dated May 5, 2018)

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Parent												
	Retained Earnings				Other Equity							Non-controlling Interests	Total Equity
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Losses on Available-for- sale Financial Assets	Cash Flow Hedge	Unearned Employee Benefit	Total			
BALANCE, JANUARY 1, 2017	\$ 8,220,087	\$ 15,614,641	\$ 18,297,655	\$ 10,841,425	\$ (781,298)	\$ -	\$ (167,082)	\$ -	\$ (253,922)	\$ 51,771,506	\$ -	\$ 51,771,506	
Net loss for the three months ended March 31, 2017	-	-	-	(2,032,545)	-	-	-	-	-	(2,032,545)	-	(2,032,545)	
Other comprehensive income and loss for the three months ended March 31, 2017	-	-	-	-	(1,805,815)	-	50,044	(12,882)	-	(1,768,653)	-	(1,768,653)	
Share-based payments	(1,045)	11,852	-	-	-	-	-	-	41,511	52,318	-	52,318	
BALANCE, MARCH 31, 2017	\$ 8,219,042	\$ 15,626,493	\$ 18,297,655	\$ 8,808,880	\$ (2,587,113)	\$ -	\$ (117,038)	\$ (12,882)	\$ (212,411)	\$ 48,022,626	\$ -	\$ 48,022,626	
BALANCE, JANUARY 1, 2018	\$ 8,208,261	\$ 15,551,491	\$ 18,297,655	\$ (6,093,403)	\$ (2,183,148)	\$ -	\$ (35,690)	\$ -	\$ (49,590)	\$ 33,695,576	\$ 29,552	\$ 33,725,128	
Effect of retrospective application	-	-	-	104,732	-	(171,354)	35,690	-	-	(30,932)	-	(30,932)	
BALANCE, JANUARY 1, 2018 AS RESTATED	8,208,261	15,551,491	18,297,655	(5,988,671)	(2,183,148)	(171,354)	-	-	(49,590)	33,664,644	29,552	33,694,196	
Net profit for the three months ended March 31, 2018	-	-	-	21,096,192	-	-	-	-	-	21,096,192	(6,628)	21,089,564	
Other comprehensive income and loss for the three months ended March 31, 2018	-	-	-	-	(186,399)	22,246	-	-	-	(164,153)	(719)	(164,872)	
Issuance of stock from exercise of employee share options	1,490	6,631	-	-	-	-	-	-	-	8,121	-	8,121	
Share-based payments	(162)	432	-	-	-	-	-	-	8,617	8,887	-	8,887	
BALANCE, MARCH 31, 2018	\$ 8,209,589	\$ 15,558,554	\$ 18,297,655	\$ 15,107,521	\$ (2,369,547)	\$ (149,108)	\$ -	\$ -	\$ (40,973)	\$ 54,613,691	\$ 22,205	\$ 54,635,896	

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

(With Deloitte & Touche review report dated May 5, 2018)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before income tax	\$ 26,394,780	\$ (2,040,740)
Adjustments for:		
Depreciation expenses	136,735	275,763
Amortization expenses	303,588	355,370
Finance costs	1	2,467
Interests income	(156,717)	(75,181)
Dividend income	-	(7,420)
Compensation costs of employee share-based payments	8,887	52,318
Share of the loss of associate and joint venture	13,339	34,392
Net loss on disposal of property, plant and equipment	272	129
Net gain on disposal of assets and licensing income (Note 27)	(31,285,385)	-
Net gain on disposal of subsidiary	(15,396)	-
Impairment loss on non-financial assets	85,186	1,385,920
Ineffective portion of cash flow hedges	-	(772)
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	-	127,521
Increase in financial assets mandatorily classified as at fair value through other comprehensive income	(32,857)	-
Decrease in trade receivables	3,566,544	6,914,884
Increase in other receivables	(71,545)	(59,561)
Decrease (increase) in inventories	1,808,850	(2,145,696)
(Increase) decrease in prepayments	(220,542)	239,909
Increase in other current assets	(20,305)	(1,953)
Decrease in other non-current assets	12,597	43,312
Decrease in note and trade payables	(3,193,129)	(5,138,261)
Decrease in other payables	(723,855)	(4,767,172)
Decrease in provisions	(516,319)	(240,833)
Decrease in other current liabilities	(155,373)	(644,940)
Cash used in operations	(4,060,644)	(5,690,544)
Interest received	49,045	71,509
Interest paid	(1)	(2,467)
Income tax paid	(31,424)	(12,612)
Net cash used in operating activities	(4,043,024)	(5,634,114)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(14,235)	-
Purchase of financial assets at fair value through profit or loss	(18,663)	-
Purchase of debt investment with no active market	-	(6,139)
Purchase of financial assets measured at cost	-	(68,372)

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2018	2017
Net cash inflow on disposal of subsidiary	\$ 106,918	\$ -
Payments for property, plant and equipment	(75,923)	(30,705)
Proceeds from disposal of property, plant and equipment	86,859	1,384
Increase in advance receipts - disposal of property	-	1,388,243
Increase in refundable deposits	(276)	-
Decrease in refundable deposits	-	140,897
Increase in other current financial assets	-	(825,805)
Decrease in other current financial assets	777,829	-
Dividends received	-	7,420
Proceeds from disposal of assets and licensing income (Note 27)	<u>31,285,385</u>	<u>-</u>
Net cash generated from investing activities	<u>32,147,894</u>	<u>606,923</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	-	2,756,560
Proceeds from guarantee deposits received	103,059	-
Refund of guarantee deposits received	-	(15,817)
Proceeds from exercise of employee share options	<u>8,121</u>	<u>-</u>
Net cash generated from financing activities	<u>111,180</u>	<u>2,740,743</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(100,440)</u>	<u>(1,228,171)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,115,610	(3,514,619)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>10,443,227</u>	<u>30,080,217</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 38,558,837</u>	<u>\$ 26,565,598</u>

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

(With Deloitte & Touche review report dated May 5, 2018)

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

HTC Corporation (HTC) was incorporated on May 15, 1997 under the Company Law of Taiwan, the Republic of China. HTC and its subsidiaries (collectively referred to as the “Group” or the “Company”) are engaged in design, manufacture, assemble, process, selling smart mobile and virtual reality devices and provide after-sales service.

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by HTC’s Board of Directors and authorized for issue on May 5, 2018.

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

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

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

- 1) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively from January 1, 2018, and the other requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized at December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 10,443,227	\$ 10,443,227	a)
Derivatives	Held-for-trading	Fair value through profit or loss (i.e. FVTPL)	196,941	196,941	b)
Equity instruments	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI)	3,367,695	3,336,763	c)
Time deposits with original maturity of more than 3 months	Loans and receivables	Amortized cost	7,988,363	7,988,363	a)
Trade receivables and other receivables	Loans and receivables	Amortized cost	8,640,593	8,640,593	a)
Refundable deposits	Loans and receivables	Amortized cost	139,016	139,016	a)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>FVTPL</u>	\$ -	\$ 196,941	\$ -	\$ 196,941	\$ -	\$ -	b)
Add: From available for sale (IAS 39) - mandatorily reclassification	196,941	(196,941)	-	-	-	-	b)
<u>FVTOCI</u>	-	3,367,695	(30,932)	3,336,763	104,732	(135,664)	c)
Add: Reclassification from available for sale (IAS 39) - equity instruments	3,367,695	(3,367,695)	-	-	-	-	c)
<u>Amortized cost</u>	-	27,211,199	-	27,211,199	-	-	a)
Add: Reclassification from loans and receivables (IAS 39)	27,211,199	(27,211,199)	-	-	-	-	a)

- a) Cash and cash equivalents, time deposits with original maturity of more than 3 months, Trade receivables and other receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.
- b) Derivatives were previously classified as held-for-trading under IAS 39 were mandatorily classified as measured at FVTPL under IFRS 9.
- c) The Company elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the financial assets at FVTOCI increased to \$312,197 thousand on January 1, 2018. The related other equity - unrealized gains or losses on available-for-sale financial assets of \$35,690 thousand was reclassified to other equity - unrealized gains or losses on financial assets at FVTOCI.

Investments in equity instruments previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$3,024,566 and a decrease of \$30,932 thousand were recognized respectively in both financial assets at FVTOCI and other equity - unrealized gains or losses on financial assets at FVTOCI on January 1, 2018.

The Company recognized under IAS 39 impairment loss on certain investments in equity instruments previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$104,732 thousand in other equity - unrealized gains or losses on financial assets at FVTOCI and an increase of \$104,732 thousand in retained earnings on January 1, 2018.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Please refer to Note 4 for related accounting policies.

The patent licensed by the Company is uncommittedly used by the authorizee under the agreement which the Company has no remaining performance obligations. The patent to which the license relates has significant stand-alone functionality and, under IFRS 15, the Company recognizes revenue when the license is transferred. Prior to the application of IFRS 15, royalties were recognized on a straight-line basis over the life of the agreement.

The Company elected only to retrospectively apply IFRS 15 to contracts that were not complete on January 1, 2018. Except for the contracts signed after January 1, 2018, the incomplete contracts before January, 1 2018 has no material impact on Company’s financial position and financial performance.

Under IAS 18 compared with IFRS 15, the related adjustments comprised an increase in assets of NT\$881,667 thousand, an increase in liabilities of NT \$4,408,333 thousand which decrease the net profit and total comprehensive income both of NT\$3,526,666 thousand, and the basic earnings per share and diluted earnings per share will decrease NT\$4.30 and NT\$4.23, respectively.

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

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

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

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

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

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

1) IFRS 16 “Leases”

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

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

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

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

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

Basis of Preparation

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

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

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

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of HTC and the entities controlled by HTC (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

See Note 16 for detailed information on subsidiaries (including percentages of ownership and main businesses).

Other Significant Accounting Policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2017. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2017.

a. 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 FVTPL) 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 FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

i. Financial asset at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured 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. Fair value is determined in the manner described in Note 35.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost, other current financial assets, other receivables and refundable deposits, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- ii) Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

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

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss 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 dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.

Investments in equity instruments under financial assets at fair value through profit or loss that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

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

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), investments in debt instruments that are measured at FVTOCI, lease receivables, as well as contract assets.

The Company always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

Financial assets, other than those at fair value through profit or loss, 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, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables and other receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset 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 carried 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 any available-for-sale 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, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

When an available-for-sale 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 available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is 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 measured at cost, the amount of the impairment loss is measured as the difference between such an 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 a 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 trade receivables and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

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

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

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

3) Financial liabilities

a) Subsequent measurement

Except the following situation, all financial liabilities are measured at amortized cost using the effective interest method:

- Financial liabilities at FVTPL

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

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 35.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps.

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.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. From 2018, derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) 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 host contracts are not measured at FVTPL.

b. Hedge accounting

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

From 2018, if the Company separates the forward element of a forward contract and designates only the change in the value of the spot element of the forward contract as the hedging instrument, the Company can elect to recognize the changes in value of the undesignated aligned forward element and foreign currency basis spread directly in profit or loss or in other comprehensive income and accumulate it in other equity (i.e. gain or loss on hedging instruments - deferred hedging cost).

For transaction-related hedged item, the amounts accumulated in other equity (i.e. gain or loss on hedging instruments - deferred hedging cost) are reclassified to profit or loss at the same time when the expected cash flows of the hedged item affects profit or loss, or are included within the initial cost of the asset or liability if the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability. For time period-related hedged item, amounts accumulated in other equity are amortized on a systematic and rational basis over the period during which the hedge adjustment for the designated elements of derivatives could affect profit or loss.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

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

Before 2018, hedge accounting was discontinued prospectively when the Company revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. From 2018, the Company discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

c. Revenue recognition

2018

The Company identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

1) Revenue from sale of goods

Revenue from sale of goods comes from sales of electronic equipment. Sales of electronic equipment are recognized as revenue when the goods are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivable is recognized concurrently.

The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from rendering of services

Revenue from rendering of services comes from products design, devices examination, and extended warranty service.

3) Licensing revenue

The Company does not promise to undertake activities that will change the functionality of the software in a software licensing transaction. Furthermore, the software remains functional without the updates and the technical support. Therefore, the upfront royalty is recognized as revenue when the related code is transferred to the customer. The usage-based royalty is recognized as revenue when the subsequent usage occurs.

2017

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. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- 1) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 2) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3) The amount of revenue can be measured reliably;
- 4) It is probable that the economic benefits associated with the transaction will flow to the Company; and
- 5) 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.

d. Retirement benefits

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 plan amendments, settlements, or other significant one-off events.

e. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Accrued marketing and advertising expenses

The Company recognizes sale of goods as the conditions are met. The related marketing and advertising expenses recognized as reduction of sales amount or as current expenses are estimated on the basis of agreement, past experience and any known factors. The Company reviews the reasonableness of the estimation periodically.

As of March 31, 2018, December 31, 2017 and March 31, 2017, the carrying amounts of accrued marketing and advertising expenses were NT\$5,079,128 thousand, NT\$5,964,240 thousand and NT\$7,904,672 thousand, respectively.

b. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

As of March 31, 2018, the carrying amounts of impairment loss was NT\$3,911,112 thousand.

c. Estimated impairment of trade receivables - 2017

Receivables are assessed for impairment at the end of each reporting period and considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the receivables, the estimated future cash flows of the asset have been affected.

As of December 31, 2017 and March 31, 2017, the carrying amounts of allowances for doubtful debts were NT\$3,901,541 thousand and NT\$4,123,459 thousand, respectively.

d. 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.

e. Valuation of inventories

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

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

As of March 31, 2018, December 31, 2017 and March 31, 2017, the carrying amounts of inventories were NT\$5,487,390 thousand, NT\$7,381,426 thousand and NT\$14,923,347 thousand, respectively.

f. Realization of deferred tax assets

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

As of March 31, 2018, December 31, 2017 and March 31, 2017, the carrying amounts of deferred tax assets were NT\$3,739,287 thousand, NT\$8,990,648 thousand and NT\$8,996,321 thousand, respectively.

g. Estimates of warranty provision

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

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

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

As of March 31, 2018, December 31, 2017 and March 31, 2017, the carrying amounts of warranty provision were NT\$2,708,163 thousand, NT\$2,795,933 thousand and NT\$2,812,565 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	March 31, 2018	December 31, 2017	March 31, 2017
Cash on hand	\$ 1,747	\$ 1,901	\$ 1,613
Checking accounts and demand deposits	9,978,548	8,502,868	21,351,630
Time deposits (with original maturities less than three months)	<u>28,578,542</u>	<u>1,938,458</u>	<u>5,212,355</u>
	<u>\$ 38,558,837</u>	<u>\$ 10,443,227</u>	<u>\$ 26,565,598</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE

	March 31, 2018	December 31, 2017	March 31, 2017
<u>Financial assets</u>			
Financial assets held for trading			
Derivatives financial assets (not under hedge accounting)			
Foreign exchange contracts	\$ -	\$ 65,199	\$ 77,332
Financial assets mandatorily classified as at FVTPL			
Derivatives financial assets (not under hedge accounting)			
Foreign exchange contracts	108,518	-	-
Convertible bonds	124,640	-	-
Warrants	<u>15,142</u>	<u>-</u>	<u>-</u>
	<u>\$ 248,300</u>	<u>\$ 65,199</u>	<u>\$ 77,332</u>
Current	\$ 108,518	\$ 65,199	\$ 77,332
Non-current	<u>139,782</u>	<u>-</u>	<u>-</u>
	<u>\$ 248,300</u>	<u>\$ 65,199</u>	<u>\$ 77,332</u>

Financial liabilities - current

Financial liabilities held for trading			
Derivatives financial liabilities (not under hedge accounting)			
Foreign exchange contracts	<u>\$ 85,646</u>	<u>\$ 75,184</u>	<u>\$ 194,631</u>

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)
<u>March 31, 2018</u>				
Foreign exchange contracts	Sell	USD/NTD	2018.04.11-2018.04.27	USD 435,400
Foreign exchange contracts	Sell	JPY/USD	2018.04.13-2018.05.23	JPY 5,300,000
Foreign exchange contracts	Sell	GBP/USD	2018.04.13-2018.05.23	GBP 8,000
Foreign exchange contracts	Sell	AUD/USD	2018.04.13	AUD 3,000
Foreign exchange contracts	Sell	CAD/USD	2018.05.11	CAD 6,000
Foreign exchange contracts	Sell	EUR/USD	2018.04.13-2018.05.23	EUR 22,000
Foreign exchange contracts	Sell	RMB/USD	2018.04.18-2018.05.11	RMB 505,417
Foreign exchange contracts	Buy	RMB/USD	2018.04.13-2018.05.23	RMB 1,233,060
Foreign exchange contracts	Buy	USD/NTD	2018.04.13-2018.05.30	USD 374,500

(Continued)

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)
Foreign exchange contracts	Buy	JPY/USD	2018.04.13-2018.05.23	JPY 3,718,335
Foreign exchange contracts	Buy	EUR/USD	2018.04.13-2018.05.23	EUR 56,000
Foreign exchange contracts	Buy	AUD/USD	2018.04.11-2018.04.13	AUD 13,000
Foreign exchange contracts	Buy	GBP/USD	2018.04.13-2018.05.23	GBP 6,000

December 31, 2017

Foreign exchange contracts	Sell	SGD/USD	2018.01.03	SGD 3,000
Foreign exchange contracts	Sell	JPY/USD	2018.01.10-2018.02.14	JPY 4,100,000
Foreign exchange contracts	Sell	GBP/USD	2018.01.19	GBP 3,000
Foreign exchange contracts	Sell	CAD/USD	2018.01.26	CAD 3,500
Foreign exchange contracts	Sell	EUR/USD	2018.01.10-2018.01.19	EUR 8,000
Foreign exchange contracts	Sell	AUD/USD	2018.02.09	AUD 1,000
Foreign exchange contracts	Buy	RMB/USD	2018.01.12-2018.02.09	RMB 750,648
Foreign exchange contracts	Buy	USD/NTD	2018.01.10-2018.03.14	USD 440,500
Foreign exchange contracts	Buy	JPY/USD	2018.01.19	JPY 2,818,335
Foreign exchange contracts	Buy	EUR/USD	2018.01.19-2018.01.26	EUR 20,000
Foreign exchange contracts	Buy	AUD/USD	2018.02.09	AUD 10,000

March 31, 2017

Foreign exchange contracts	Sell	USD/NTD	2017.04.12-2017.05.17	USD 75,000
Foreign exchange contracts	Sell	JPY/USD	2017.04.12-2017.05.10	JPY 4,450,000
Foreign exchange contracts	Sell	GBP/USD	2017.04.19	GBP 2,000
Foreign exchange contracts	Sell	AUD/USD	2017.04.26	AUD 2,500
Foreign exchange contracts	Buy	RMB/USD	2017.04.12-2017.05.10	RMB 735,640
Foreign exchange contracts	Buy	USD/NTD	2017.04.12-2017.05.17	USD 433,500
Foreign exchange contracts	Buy	SGD/USD	2017.04.12-2017.05.12	SGD 252,579

(Concluded)

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	March 31, 2018	December 31, 2017	March 31, 2017
Derivative financial liabilities under hedge <u>accounting</u>			
Cash flow hedges - foreign exchange forward contracts	\$ _____ -	\$ _____ -	\$ <u>12,110</u>

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

	Buy/Sell	Currency	Settlement Period/Date	Notional Amount (In Thousands)
<u>March 31, 2017</u>				
Forward exchange contracts	Sell	JPY/USD	2017.07.21	JPY 2,500,000

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 were included in the following line items in the consolidated statements of comprehensive income:

	For the Three Months Ended March 31, 2017
Revenues	\$ -
Other gains and losses	<u>772</u>
	<u>\$ 772</u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

Investments in Equity Instruments at FVTOCI

	March 31, 2018
Domestic investments	
Listed shares and emerging market shares	\$ 354
Unlisted shares	<u>572,868</u>
	<u>573,222</u>
Foreign investments	
Listed shares	355,614
Unlisted shares	1,707,330
Unlisted beneficiary certificate	<u>677,625</u>
	<u>2,740,569</u>
	<u>\$ 3,313,791</u>
Current	\$ 355,614
Non-current	<u>2,958,177</u>
	<u>\$ 3,313,791</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term business development strategic purposes. Accordingly, the Company's management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3 and Note 10 for information relating to their reclassification and comparative information for 2017.

10. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017	March 31, 2017
Domestic unlisted equity investment	\$ 626,281	\$ 643,961
Overseas unlisted equity investment	1,779,994	1,946,550
Overseas unlisted beneficiary certificate	649,223	675,596
Derivative financial instruments - convertible bonds	116,226	-
Derivative financial instruments - overseas warrants	<u>15,516</u>	<u>-</u>
	<u>\$ 3,187,240</u>	<u>\$ 3,266,107</u>
Classified according to financial asset measurement categories		
Financial assets at fair value through profit or loss	\$ 131,742	\$ -
Available-for-sale financial assets	<u>3,055,498</u>	<u>3,266,107</u>
	<u>\$ 3,187,240</u>	<u>\$ 3,266,107</u>

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

11. OTHER CURRENT FINANCIAL ASSETS

	March 31, 2018	December 31, 2017	March 31, 2017
Time deposits with original maturities more than three months	<u>\$ 7,210,534</u>	<u>\$ 7,988,363</u>	<u>\$ 6,576,255</u>
Current	\$ 7,064,944	\$ 7,988,363	\$ 6,576,255
Non-current	<u>145,590</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,210,534</u>	<u>\$ 7,988,363</u>	<u>\$ 6,576,255</u>

For details of pledged other current financial assets, please refer to Note 37.

12. TRADE RECEIVABLES AND OTHER RECEIVABLES

	March 31, 2018	December 31, 2017	March 31, 2017
<u>Trade and overdue receivables</u>			
At amortized cost			
Trade receivables	\$ 5,473,452	\$ 9,023,748	\$ 9,918,868
Trade receivables - related parties	2,566	22,400	5
Overdue receivables	1,840,947	1,840,947	1,840,947
Less: Allowances for impairment loss	(509,052)	(509,052)	(871,922)
Less: Allowances for impairment loss - overdue receivables	<u>(1,840,947)</u>	<u>(1,840,947)</u>	<u>(1,840,947)</u>
	<u>\$ 4,966,966</u>	<u>\$ 8,537,096</u>	<u>\$ 9,046,951</u>
Current	\$ 4,966,966	\$ 8,537,096	\$ 9,046,951
Non-current	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,966,966</u>	<u>\$ 8,537,096</u>	<u>\$ 9,046,951</u>
<u>Other receivables</u>			
Receivables from disposal of investments	\$ 1,334,285	\$ 1,326,104	\$ 1,205,633
Interest receivables	357,848	248,786	228,649
VAT refund receivables	65,629	38,350	160,955
Others	86,065	41,799	47,112
Less: Allowances for impairment loss	<u>(1,561,113)</u>	<u>(1,551,542)</u>	<u>(1,410,590)</u>
	<u>\$ 282,714</u>	<u>\$ 103,497</u>	<u>\$ 231,759</u>
Current	\$ 282,714	\$ 103,497	\$ 231,759
Non-current	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 282,714</u>	<u>\$ 103,497</u>	<u>\$ 231,759</u>

a. Trade receivables at amortized cost

For the three months ended March 31, 2018

The average credit period of sales of goods was 30-75 days. No interest was charged on trade receivables for the first 75 days from the date of the invoice. Thereafter, interest was charged at 1-18% per annum on the outstanding balance. The Company adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Company uses other publicly available financial information or its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits annually.

In order to minimize credit risk, the Company's management has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Company reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the Company's management believes the Company's credit risk was significantly reduced.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Company's provision matrix.

March 31, 2018

	Non past due	1-90 days	91-180 days	Over 181 days	Total
Expected credit loss rate	0%-4%	0%-50%	0%-100%	50%-100%	-
Gross carrying amount	\$ 4,785,482	\$ 290,776	\$ 60,093	\$ 339,667	\$ 5,476,018
Loss allowance (Lifetime ECL)	<u>(14,140)</u>	<u>(95,152)</u>	<u>(60,093)</u>	<u>(339,667)</u>	<u>(509,052)</u>
Amortized cost	<u>\$ 4,771,342</u>	<u>\$ 195,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,966,966</u>

No difference of the allowances for impairment loss on March 31, 2018 compared to January 1, 2018.

For the three months ended March 31, 2017

The Company applied the same credit policy in 2018 and 2017. The credit period on sales of goods is 30-75 days. No interest is charged on trade receivables before the due date. Thereafter, interest is charged at 1-18% per annum on the outstanding balance, which is considered to be non-controversial, to some of customers. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. For customers with low credit risk, the Company has recognized an allowance for doubtful debts of 1-5% against receivables past due beyond 31-90 days and of 5-100% against receivables past due beyond 91 days. For customers with high credit risk, the Company has recognized an allowance for impairment loss of 10-100% against receivables past due more than 31 days.

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

The concentration of credit risk is limited due to the fact that the customer base is diverse except for single major customer. The Company will evaluate the level of credit risk periodically and reconcile the receivables in order to control the credit condition of the single major customer.

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

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

Aging of trade receivables

	December 31, 2017	March 31, 2017
1-90 days	\$ 244,443	\$ 257,735
91-180 days	63,613	276,284
Over 181 days	<u>340,280</u>	<u>511,779</u>
	<u>\$ 648,336</u>	<u>\$ 1,045,798</u>

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

Aging of impaired trade receivables

	December 31, 2017	March 31, 2017
1-90 days	\$ 139,284	\$ 173,876
91-180 days	-	-
Over 181 days	<u>-</u>	<u>-</u>
	<u>\$ 139,284</u>	<u>\$ 173,876</u>

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

No difference of the allowances for impairment loss on March 31, 2017 compared to January 1, 2017.

b. Other receivables

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

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

The movements of the loss allowance of other receivables were as follows:

	For the Three Months Ended March 31, 2018
Balance at January 1, 2018 per IAS 39	\$ 1,551,542
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	1,551,542
Foreign exchange gains and losses	<u>9,571</u>
Balance at March 31, 2018	<u>\$ 1,561,113</u>

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

	For the Three Months Ended March 31, 2017
Balance, beginning of the year	\$ 1,475,130
Foreign exchange gains and losses	<u>(64,540)</u>
Balance at March 31, 2017	<u>\$ 1,410,590</u>

13. INVENTORIES

	March 31, 2018	December 31, 2017	March 31, 2017
Finished goods	\$ 1,246,929	\$ 1,602,962	\$ 3,404,007
Work-in-process	346,798	124,318	829,257
Semi-finished goods	892,390	1,094,183	2,191,319
Raw materials	2,879,996	4,403,010	8,182,417
Inventory in transit	<u>121,277</u>	<u>156,953</u>	<u>316,347</u>
	<u>\$ 5,487,390</u>	<u>\$ 7,381,426</u>	<u>\$ 14,923,347</u>

The cost of inventories recognized as operating costs for the three months ended March 31, 2018 and 2017 were NT\$85,186 thousand and NT\$1,385,920 thousand, respectively.

14. PREPAYMENTS

	March 31, 2018	December 31, 2017	March 31, 2017
Royalty	\$ 2,528,426	\$ 2,633,750	\$ 3,002,602
Net input VAT	555,727	480,516	508,468
Prepayments to suppliers	124,398	9,422	11,861
Prepaid equipment	101,918	52,744	62,182
Others	<u>909,165</u>	<u>800,287</u>	<u>577,325</u>
	<u>\$ 4,219,634</u>	<u>\$ 3,976,719</u>	<u>\$ 4,162,438</u>
Current	\$ 1,957,640	\$ 1,742,986	\$ 1,593,590
Non-current	<u>2,261,994</u>	<u>2,233,733</u>	<u>2,568,848</u>
	<u>\$ 4,219,634</u>	<u>\$ 3,976,719</u>	<u>\$ 4,162,438</u>

Prepayments for royalty were primarily for getting royalty right and were classified as current or non-current in accordance with their nature. For details of content of contracts, please refer to Note 40.

15. NON-CURRENT ASSETS HELD FOR SALE

	March 31, 2018	December 31, 2017	March 31, 2017
Land and buildings held for sale	<u>\$ 1,672,688</u>	<u>\$ 1,647,763</u>	<u>\$ 1,563,732</u>

On March 15, 2017, HTC' Board of Directors passed a resolution to sell land and factory in Shanghai to Shanghai Xingbao Information Technology Co., Ltd. with the amount of RMB630,000 thousand. The trading amount of RMB315,000 thousand has been collected and recognized as advance receipts. While the transferring process has not yet been completed, the assets was recognized as non-current assets held for sale without impairment loss valued as of March 31, 2018. The transferring process has been completed in April 2018.

16. SUBSIDIARIES

a. Subsidiary included in consolidated financial statements

The consolidated entities as of March 31, 2018, December 31, 2017 and March 31, 2017 were as follows:

Investor	Investee	Main Businesses	% of Ownership			Remark	
			March 31, 2018	December 31, 2017	March 31, 2017		
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company and general investing activities	100.00	100.00	100.00	-	
	Communication Global Certification Inc.	Import of controlled telecommunications radio-frequency devices and software services	-	100.00	100.00	1)	
	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 services	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	-	
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	100.00	-	
	HTC Investment (BVI) Corporation	General investing activities	100.00	100.00	100.00	-	
	HTC VIVE Holding (BVI) Corp.	International holding company	100.00	100.00	100.00	-	
	HTC VIVE Investment (BVI) Corp.	General investing activities	100.00	100.00	100.00	-	
	DeepQ Holding (BVI) Corp.	International holding company	100.00	100.00	100.00	-	
	HTC VR Content (BVI) Corp.	"	100.00	100.00	-	2)	
	HTC Smartphone (BVI) Corp.	"	100.00	100.00	-	2)	
	H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
	High Tech Computer Asia Pacific Pte. Ltd.	HTC (Australia and New Zealand) PTY. Ltd.	Marketing, repair and after-sales services	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 Communication Co., Ltd.		Manufacture and sale of smart mobile devices and after-sales services	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	-	

(Continued)

Investor	Investee	Main Businesses	% of Ownership			Remark
			March 31, 2018	December 31, 2017	March 31, 2017	
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	100.00	-
	HTC Vietnam Services One Member Limited Liability Company	Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Myanmar Company Limited	"	99.00	99.00	99.00	-
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	100.00	100.00	100.00	-
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	100.00	-
HTC Communication Technologies (SH)	HTC Communication (BJ) Tech Co.	Design, research and development of application software	100.00	100.00	100.00	-
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	100.00	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
	HTC Myanmar Company Limited	Marketing, repair and after-sales services	1.00	1.00	1.00	-
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	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 Communication Solutions Mexico, S.A DE C.V.	"	1.00	1.00	1.00	-
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	1.00	1.00	1.00	-
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company	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	-
	HTC Communication Canada, Ltd.	"	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	100.00	-
	HTC Communication Solutions Mexico, S.A DE C.V.	"	99.00	99.00	99.00	-
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	99.00	99.00	99.00	-
	HTC Czech RC s.r.o.	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	100.00	-
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	100.00	-
HTC America Holding Inc.	HTC America Inc.	Sale of smart mobile 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	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership			Remark
			March 31, 2018	December 31, 2017	March 31, 2017	
	Dashwire, Inc.	Design and management of cloud synchronization technology	100.00	100.00	100.00	-
	Inquisitive Minds, Inc.	Development and sale of digital education platform	100.00	100.00	100.00	-
HTC VIVE Holding (BVI) Corp.	HTC VIVE TECH (BVI) Corp.	International holding company	100.00	100.00	100.00	-
HTC VIVE TECH (BVI) Corp.	HTC VIVE TECH Corp.	Research, development and sale of virtual reality devices	100.00	100.00	100.00	-
	HTC VIVE TECH (HK) Limited	"	100.00	100.00	-	3)
HTC VIVE TECH (HK) Limited	HTC VIVE TECH (UK) Limited	Research, development and sale of virtual reality devices	100.00	100.00	-	3)
	HTC VIVE TECH (Beijing)	"	100.00	100.00	-	3)
DeepQ Holding (BVI) Corp.	DeepQ (BVI) Corp.	International holding company	100.00	100.00	100.00	-
DeepQ (BVI) Corp.	DeepQ Technology Corp.	Medical technology and health care	100.00	100.00	-	3)
HTC Investment (BVI) Corporation	VRChat, Inc.	Development of virtual reality contents	53.16	53.16	-	4)
VRChat, Inc.	VRChat Ca. Development Inc.	Development of virtual reality contents	100.00	100.00	-	4)
HTC VR Content (BVI) Corp.	Uomo Vitruviano Corp.	Development of virtual reality contents	100.00	100.00	-	2)

(Concluded)

Remark:

- 1) The Company disposed 100% equity interest in Communication Global Certification Inc. in January 2018. For details of the disposal, please refer to Note 31.
 - 2) HTC VR Content (BVI) Corp, HTC Smartphone (BVI) Corp. and Uomo Vitruviano Corp. were incorporated in September 2017.
 - 3) HTC VIVE TECH (Beijing), HTC VIVE TECH (HK) Limited, HTC VIVE TECH (UK) Limited and DeepQ Technology Corp. were incorporated in June 2017.
 - 4) In August 2017, VRChat, Inc. and its subsidiary were included in consolidated financial statements for acquiring 53.16% equity interest by the Company. For details of the acquisition, please refer to Note 30.
- b. Subsidiary excluded from consolidated financial statements: None.
- c. Details of subsidiaries that have material non-controlling interests: None.

17. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	March 31, 2018	December 31, 2017	March 31, 2017
Investment in associates	<u>\$ 390,314</u>	<u>\$ 413,120</u>	<u>\$ 466,341</u>

Investments in Associate-Associates that are not individually material

	March 31, 2018	December 31, 2017	March 31, 2017
<u>Unlisted equity investment</u>			
East West Artists, LLC	\$ 25,256	\$ 26,834	\$ 24,284
Steel Wool Games, Inc.	91,270	99,921	128,860
Surgical Theater, LLC	264,173	274,864	302,465
Gui Zhou Wei Ai Educational Technology Co., Ltd.	<u>9,615</u>	<u>11,501</u>	<u>10,732</u>
	<u>\$ 390,314</u>	<u>\$ 413,120</u>	<u>\$ 466,341</u>

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

Name of Associate	March 31, 2018	December 31, 2017	March 31, 2017
East West Artists, LLC	30.00%	30.00%	25.00%
Steel Wool Games, Inc.	49.00%	49.00%	49.00%
Surgical Theater, LLC	16.68%	16.68%	20.51%
Gui Zhou Wei Ai Educational Technology Co., Ltd.	25.00%	25.00%	25.00%

Aggregate information of associates that are not individually material:

	For the Three Months Ended March 31	
	2018	2017
The Company's share of:		
Loss from continuing operations	\$ (13,339)	\$ (34,392)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u>\$ (13,339)</u>	<u>\$ (34,392)</u>

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

18. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2018	December 31, 2017	March 31, 2017
Carrying amounts			
Land	\$ 4,679,054	\$ 4,676,726	\$ 4,668,951
Buildings	3,062,538	5,260,727	5,395,157
Machinery and equipment	270,268	417,379	1,098,110
Other equipment	<u>418,584</u>	<u>443,781</u>	<u>550,464</u>
	<u>\$ 8,430,444</u>	<u>\$ 10,798,613</u>	<u>\$ 11,712,682</u>

Movement of property, plant and equipment for the three months ended March 31, 2018 and 2017 were as follows:

	2018				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Balance, beginning of period	\$ 4,676,726	\$ 7,383,032	\$ 12,901,808	\$ 2,219,343	\$ 27,180,909
Additions	-	16,949	25,905	42,185	85,039
Disposals	-	(48,259)	(1,998,245)	(68,198)	(2,114,702)
Reclassified as investment properties	-	(2,836,088)	-	-	(2,836,088)
Disposal of subsidiary	-	-	(824,206)	(48,758)	(872,964)
Effect of foreign currency exchange differences	2,328	8,514	68,717	12,104	91,663
Balance, end of period	<u>4,679,054</u>	<u>4,524,148</u>	<u>10,173,979</u>	<u>2,156,676</u>	<u>21,533,857</u>
<u>Accumulated depreciation</u>					
Balance, beginning of period	-	2,122,305	11,640,682	1,757,876	15,520,863
Depreciation expenses	-	52,713	31,089	36,414	120,216
Disposals	-	(37,376)	(1,923,039)	(67,156)	(2,027,571)
Reclassified as investment properties	-	(677,215)	-	-	(677,215)
Disposal of subsidiary	-	-	(750,842)	(16,952)	(767,794)
Effect of foreign currency exchange differences	-	1,183	60,103	10,093	71,379
Balance, end of period	<u>-</u>	<u>1,461,610</u>	<u>9,057,993</u>	<u>1,720,275</u>	<u>12,239,878</u>
<u>Accumulated impairment</u>					
Balance, beginning of period	-	-	843,747	17,686	861,433
Effect of foreign currency exchange differences	-	-	1,971	131	2,102
Balance, end of period	<u>-</u>	<u>-</u>	<u>845,718</u>	<u>17,817</u>	<u>863,535</u>
Net book value, end of period	<u>\$ 4,679,054</u>	<u>\$ 3,062,538</u>	<u>\$ 270,268</u>	<u>\$ 418,584</u>	<u>\$ 8,430,444</u>
2017					
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Balance, beginning of period	\$ 4,674,792	\$ 7,321,116	\$ 13,614,889	\$ 2,301,452	\$ 27,912,249
Additions	-	8,393	12,767	11,409	32,569
Disposals	-	-	(101,613)	(11,003)	(112,616)
Reclassification	-	-	(39,865)	-	(39,865)
Effect of foreign currency exchange differences	(5,841)	(21,265)	(131,735)	(48,866)	(207,707)
Balance, end of period	<u>4,668,951</u>	<u>7,308,244</u>	<u>13,354,443</u>	<u>2,252,992</u>	<u>27,584,630</u>
<u>Accumulated depreciation</u>					
Balance, beginning of period	-	1,847,304	11,816,261	1,686,963	15,350,528
Depreciation expenses	-	68,354	149,882	51,591	269,827
Disposals	-	-	(101,613)	(9,490)	(111,103)
Reclassification	-	-	(21,013)	-	(21,013)
Effect of foreign currency exchange differences	-	(2,571)	(109,859)	(31,876)	(144,306)
Balance, end of period	<u>-</u>	<u>1,913,087</u>	<u>11,733,658</u>	<u>1,697,188</u>	<u>15,343,933</u>

(Continued)

	2017				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Accumulated impairment</u>					
Balance, beginning of period	\$ -	\$ -	\$ 530,786	\$ 5,439	\$ 536,225
Reclassification	-	-	(7,868)	-	(7,868)
Effect of foreign currency exchange differences	-	-	(243)	(99)	(342)
Balance, end of period	<u>-</u>	<u>-</u>	<u>522,675</u>	<u>5,340</u>	<u>528,015</u>
Net book value, end of period	<u>\$ 4,668,951</u>	<u>\$ 5,395,157</u>	<u>\$ 1,098,110</u>	<u>\$ 550,464</u>	<u>\$ 11,712,682</u> (Concluded)

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

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

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

The Company leased part of the buildings in February 2018. The leased assets were reclassified as investment properties for its correspondence with the principal of investment properties. For the detail, please refer to Note 19.

There were no capitalized interests for the three months ended March 31, 2018 and 2017.

19. INVESTMENT PROPERTIES, NET

Movement of investment properties, net for the three months ended March 31, 2018 and 2017 were as follows:

	2018	2017
<u>Cost</u>		
Balance, beginning of period	\$ -	\$ 1,829,827
Eliminations	-	(1,504)
Reclassification	2,836,088	(1,791,715)
Effect of foreign currency exchange differences	-	(36,608)
Balance, end of period	<u>2,836,088</u>	<u>-</u>
<u>Accumulated depreciation</u>		
Balance, beginning of period	-	302,826
Depreciation expense	16,519	5,936
Eliminations	-	(1,504)
Reclassification	677,215	(301,200)
Effect of foreign currency exchange differences	-	(6,058)
Balance, end of period	<u>693,734</u>	<u>-</u>
Net book value, end of period	<u>\$ 2,142,354</u>	<u>\$ -</u>

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

Main buildings	40-50 years
Electricity Distribution System	20 years
Air-conditioning	5-10 years
Others	3-5 years

The Company passed a resolution to dispose investment properties in March 2017. As of March 31, 2018, the investment properties were reclassified as non-current assets held for sale since the transferring process has not yet been completed. For the detail, please refer to Note 15.

The determination of fair value was performed by independent qualified professional appraisers, and the fair value was measured by using Level 3 inputs. The fair value is assessed as no material impact compared to December 31, 2017 and March 31, 2018. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair value as of March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Fair value	<u>\$ 2,467,267</u>	<u>\$ 2,467,267</u>

20. INTANGIBLE ASSETS

	March 31, 2018	December 31, 2017	March 31, 2017
Carrying amounts			
Patents	\$ 1,828,219	\$ 2,154,987	\$ 3,047,037
Goodwill	65,485	67,025	-
Other intangible assets	<u>67,179</u>	<u>93,429</u>	<u>269,037</u>
	<u>\$ 1,960,883</u>	<u>\$ 2,315,441</u>	<u>\$ 3,316,074</u>

Movements of intangible assets for the three months ended March 31, 2018 and 2017 were as follows:

	2018			Total
	Patents	Goodwill	Other Intangible Assets	
<u>Cost</u>				
Balance, beginning of period	\$ 11,467,990	\$ 713,250	\$ 1,753,620	\$ 13,934,860
Effect of foreign currency exchange differences	<u>(216,300)</u>	<u>(12,945)</u>	<u>(10,519)</u>	<u>(239,764)</u>
Balance, end of period	<u>11,251,690</u>	<u>700,305</u>	<u>1,743,101</u>	<u>13,695,096</u>

(Continued)

	2018			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Accumulated amortization</u>				
Balance, beginning of period	\$ 9,201,918	\$ -	\$ 1,497,864	\$ 10,699,782
Amortization expenses	276,871	-	26,717	303,588
Effect of foreign currency exchange differences	<u>(166,403)</u>	<u>-</u>	<u>(7,063)</u>	<u>(173,466)</u>
Balance, end of period	<u>9,312,386</u>	<u>-</u>	<u>1,517,518</u>	<u>10,829,904</u>
<u>Accumulated impairment</u>				
Balance, beginning of period	111,085	646,225	162,327	919,637
Effect of foreign currency exchange differences	<u>-</u>	<u>(11,405)</u>	<u>(3,923)</u>	<u>(15,328)</u>
Balance, end of period	<u>111,085</u>	<u>634,820</u>	<u>158,404</u>	<u>904,309</u>
Net book value, end of period	<u>\$ 1,828,219</u>	<u>\$ 65,485</u>	<u>\$ 67,179</u>	<u>\$ 1,960,883</u> (Concluded)

	2017			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Cost</u>				
Balance, beginning of period	\$ 12,197,140	\$ 684,668	\$ 1,840,154	\$ 14,721,962
Eliminations	-	-	(7,093)	(7,093)
Effect of foreign currency exchange differences	<u>(582,450)</u>	<u>(30,709)</u>	<u>(36,383)</u>	<u>(649,542)</u>
Balance, end of period	<u>11,614,690</u>	<u>653,959</u>	<u>1,796,678</u>	<u>14,065,327</u>
<u>Accumulated amortization</u>				
Balance, beginning of period	8,538,904	-	1,333,403	9,872,307
Amortization expenses	294,986	-	60,384	355,370
Eliminations	-	-	(7,093)	(7,093)
Effect of foreign currency exchange differences	<u>(377,322)</u>	<u>-</u>	<u>(24,037)</u>	<u>(401,359)</u>
Balance, end of period	<u>8,456,568</u>	<u>-</u>	<u>1,362,657</u>	<u>9,819,225</u>
<u>Accumulated impairment</u>				
Balance, beginning of period	111,085	684,668	175,546	971,299
Effect of foreign currency exchange differences	<u>-</u>	<u>(30,709)</u>	<u>(10,562)</u>	<u>(41,271)</u>
Balance, end of period	<u>111,085</u>	<u>653,959</u>	<u>164,984</u>	<u>930,028</u>
Net book value, end of period	<u>\$ 3,047,037</u>	<u>\$ -</u>	<u>\$ 269,037</u>	<u>\$ 3,316,074</u>

The Company owns patents of graphics technologies. As of March 31, 2018, December 31, 2017 and March 31, 2017, the carrying amounts of such patents were NT\$1,819,875 thousand, NT\$2,144,678 thousand and NT\$3,032,800 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

21. SHORT-TERM BORROWINGS

	March 31, 2018	December 31, 2017	March 31, 2017
<u>Unsecured borrowings</u>			
Line of credit borrowings	\$ _____ -	\$ _____ -	\$ <u>2,756,560</u>

As of March 31, 2017, the interest rate was 0.96%-1.51% per annum.

22. NOTE AND TRADE PAYABLES

	March 31, 2018	December 31, 2017	March 31, 2017
Note payables	\$ 45	\$ 27	\$ 603
Trade payables	11,373,259	14,568,235	21,106,410
Trade payables - related parties	<u>2,789</u>	<u>960</u>	<u>2,454</u>
	<u>\$ 11,376,093</u>	<u>\$ 14,569,222</u>	<u>\$ 21,109,467</u>

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

23. OTHER LIABILITIES

	March 31, 2018	December 31, 2017	March 31, 2017
<u>Other payables</u>			
Accrued expenses	\$ 10,879,314	\$ 11,624,987	\$ 13,487,733
Payables for purchase of equipment	<u>115,193</u>	<u>56,903</u>	<u>81,921</u>
	<u>\$ 10,994,507</u>	<u>\$ 11,681,890</u>	<u>\$ 13,569,654</u>
<u>Other liabilities</u>			
Advance receipts (Note 15)	\$ 2,393,773	\$ 2,480,454	\$ 3,422,940
Agency receipts	83,172	132,387	138,520
Others	<u>216,339</u>	<u>237,872</u>	<u>186,275</u>
	<u>\$ 2,693,284</u>	<u>\$ 2,850,713</u>	<u>\$ 3,747,735</u>

Accrued Expenses

	March 31, 2018	December 31, 2017	March 31, 2017
Marketing	\$ 5,079,128	\$ 5,964,240	\$ 7,904,672
Salaries, bonuses and compensation	2,330,670	2,004,912	1,085,165
Materials and molding expenses	1,401,590	1,796,104	2,136,570
Services	813,906	766,310	1,182,618
Import, export and freight	164,729	181,885	272,764
Repairs, maintenance and sundry purchase	125,533	76,785	118,681
Insurance	70,424	111,477	118,758
Others	<u>893,334</u>	<u>723,274</u>	<u>668,505</u>
	<u>\$ 10,879,314</u>	<u>\$ 11,624,987</u>	<u>\$ 13,487,733</u>

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

24. PROVISIONS

	March 31, 2018	December 31, 2017	March 31, 2017
Warranties	\$ 2,708,163	\$ 2,795,933	\$ 2,812,565
Provisions for contingent loss on purchase orders	<u>152,719</u>	<u>581,268</u>	<u>330,913</u>
	<u>\$ 2,860,882</u>	<u>\$ 3,377,201</u>	<u>\$ 3,143,478</u>

Movement of provisions for the three months ended March 31, 2018 and 2017 were as follows:

	2018		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of period	\$ 2,795,933	\$ 581,268	\$ 3,377,201
Provisions recognized (reversed)	391,084	(364,767)	26,317
Usage	(477,556)	(63,782)	(541,338)
Effect of foreign currency exchange differences	<u>(1,298)</u>	<u>-</u>	<u>(1,298)</u>
Balance, end of period	<u>\$ 2,708,163</u>	<u>\$ 152,719</u>	<u>\$ 2,860,882</u>

	2017		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of period	\$ 3,010,969	\$ 373,342	\$ 3,384,311
Provisions recognized (reversed)	605,968	(13,441)	592,527
Usage	(784,487)	(28,988)	(813,475)
Effect of foreign currency exchange differences	<u>(19,885)</u>	<u>-</u>	<u>(19,885)</u>
Balance, end of period	<u>\$ 2,812,565</u>	<u>\$ 330,913</u>	<u>\$ 3,143,478</u>

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

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

25. EQUITY

Share Capital

a. Ordinary shares

	March 31, 2018	December 31, 2017	March 31, 2017
Numbers of shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Shares authorized	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Number of shares issued and fully paid (in thousands of shares)	<u>820,959</u>	<u>820,826</u>	<u>821,904</u>
Shares issued	<u>\$ 8,209,589</u>	<u>\$ 8,208,261</u>	<u>\$ 8,219,042</u>

In March 2017, HTC retired 105 thousand restricted shares for employees, totaling NT\$1,045 thousand. As a result, HTC's issued and outstanding common stock as of March 31, 2017 decreased to NT\$8,219,042 thousand, divided into 821,904 thousand ordinary shares at NT\$10 par value. Every ordinary share carries one vote per share and a right to dividends.

In March 2018, HTC retired 16 thousand restricted shares for employees, totaling NT\$162 thousand. In January and February 2018, the employee stock options have been exercised by issuing 129 thousand shares amounting to NT\$1,290 thousand and 20 thousand shares amounting to NT\$200 thousand, respectively. As a result, HTC's issued and outstanding common stock as of March 31, 2018 increased to NT\$8,209,589 thousand, divided into 820,959 thousand ordinary shares at NT\$10 par value. Every ordinary share carries one vote per share and a right to dividends.

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

b. Global depositary receipts

In November 2003, HTC issued 14,400 thousand ordinary shares corresponding to 3,600 thousand units of Global Depositary Receipts (“GDRs”). For this GDR issuance, HTC’s stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand ordinary shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of stock dividends, the GDRs increased to 8,782.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested HTC to redeem the GDRs to get HTC’s ordinary shares. As of March 31, 2018, there were 5,832 thousand units of GDRs redeemed, representing 23,292.5 thousand ordinary shares, and the outstanding GDRs represented 12,768 thousand ordinary shares or 1.56 % of HTC’s outstanding ordinary shares.

Capital Surplus

	March 31, 2018	December 31, 2017	March 31, 2017
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>			
Arising from issuance of ordinary shares	\$ 14,668,394	\$ 14,659,563	\$ 14,121,223
Arising from consolidation excess	23,288	23,288	23,288
Arising from expired stock options	195,734	186,052	96,696
<u>May not be used for any purpose</u>			
Arising from employee share options	560,757	572,369	643,684
Arising from employee restricted shares	<u>110,381</u>	<u>110,219</u>	<u>741,602</u>
	<u>\$ 15,558,554</u>	<u>\$ 15,551,491</u>	<u>\$ 15,626,493</u>

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

For details of capital surplus - employee share options and employee restricted shares, please refer to Note 33.

Retained Earnings and Dividend Policy

Under HTC’s Articles of Incorporation, HTC should make appropriations from its net income in the following order:

- a. To pay taxes.
- b. To cover accumulated losses, if any.
- c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of HTC’s authorized capital.
- d. To recognize or reverse special reserve return earnings.

- e. The Board of Directors shall propose allocation ratios for any remainder profit after withholding the amounts under subparagraphs 1 to 4 above plus any unappropriated retained earnings of previous years based on the dividend policy set forth in the Article and propose such allocation ratio at the shareholders' meeting.

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

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. HTC has amended the policy of its earnings distribution as stipulated in its Articles of Incorporation in order to comply with the aforementioned law amendments with an approval from the resolution of the shareholders' meeting, and stipulated an additional policy of employees' compensation on June 24, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, refer to employee benefits expense section as stated in Note 27.

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

The loss off-setting for 2017 had been proposed by HTC's board of directors on March 25, 2018. The loss off-setting for 2017 are subject to the resolution of the shareholders' meeting to be held on June 26, 2018. The appropriation of profit or loss for 2016 had been resolved in the shareholders' meeting on June 15, 2017.

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

Other Equity items

- 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 losses on available-for-sale financial assets - 2017

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. Unrealized gains or losses on financial assets at FVTOCI - 2018

Unrealized gains or losses on financial assets at FVTOCI represents the cumulative gains and losses arising on the revaluation of financial assets at FVTOCI that have been recognized in other comprehensive income. The cumulative unrealized gains or losses will not be reclassified to profit or loss on disposal of the equity investments.

d. 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 gains or losses 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.

e. Unearned employee benefit

In the meeting of shareholders on June 2, 2015 and June 19, 2014, the shareholders approved a restricted stock plan for employees. Refer to Note 32 for the information of restricted shares issued.

	For the Three Months Ended March 31	
	2018	2017
Balance, beginning of period	\$ (49,590)	\$ (253,922)
Share-based payment expenses recognized	<u>8,617</u>	<u>41,511</u>
Balance, end of period	<u>\$ (40,973)</u>	<u>\$ (212,411)</u>

26. OPERATING REVENUES

	For the Three Months Ended March 31	
	2018	2017
Sale of goods	\$ 8,530,854	\$ 14,267,438
Other operating income	<u>257,889</u>	<u>263,385</u>
	<u>\$ 8,788,743</u>	<u>\$ 14,530,823</u>

27. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS AND OTHER COMPREHENSIVE INCOME AND LOSS

a. Other income

	For the Three Months Ended March 31	
	2018	2017
Interest income		
Bank deposits	\$ 156,508	\$ 61,028
Others	<u>209</u>	<u>14,153</u>
	156,717	75,181
Rental income	80,477	2,453
Dividends	-	7,420
Others	<u>47,617</u>	<u>187,135</u>
	<u>\$ 284,811</u>	<u>\$ 272,189</u>

b. Other gains and losses

	For the Three Months Ended March 31	
	2018	2017
Net gain on disposal of assets and licensing income	\$ 31,285,385	\$ -
Net loss on disposal of property, plant and equipment	(272)	(129)
Net gain on disposal of subsidiary (Note 31)	15,396	-
Net foreign exchange gain	42,515	205,271
Net loss arising from financial instruments classified as held for trading	-	(117,299)
Net gain on valuation of financial instruments at fair value	22,872	-
Ineffective portion of cash flow hedge (Note 8)	-	772
Other loss	<u>(63,623)</u>	<u>(7,084)</u>
	<u>\$ 31,302,273</u>	<u>\$ 81,531</u>

On September 21 2017, the Company signed a business cooperation agreement (the “Agreement”) with Google Inc. (“Google”). According to the Agreement, a part of the Company’s employees and assets was transferred to Google for US\$1,100,000 and Google has received a non-exclusive license for certain part of the Company’s intellectual properties. The aforementioned transaction was completed on January 30, 2018, and resulted in a net gain of 31,300,655 thousand, which was recorded as net gain of NT\$31,285,385 on disposal of assets and licensing fee income, net gain of NT\$15,396 thousand on disposal of subsidiary and net loss of NT\$126 thousand on disposal of property and equipment, respectively.

c. Depreciation and amortization

	For the Three Months Ended March 31	
	2018	2017
Property, plant and equipment	\$ 120,216	\$ 269,827
Investment properties	16,519	5,936
Intangible assets	<u>303,588</u>	<u>355,370</u>
	<u>\$ 440,323</u>	<u>\$ 631,133</u>
An analysis of depreciation - by function		
Operating costs	\$ 25,457	\$ 73,756
Operating expenses	94,759	196,071
Other loss	<u>16,519</u>	<u>5,936</u>
An analysis of depreciation - by function	<u>\$ 136,735</u>	<u>\$ 275,763</u>
An analysis of amortization - by function		
Operating costs	\$ -	\$ 689
Operating expenses	<u>303,588</u>	<u>354,681</u>
	<u>\$ 303,588</u>	<u>\$ 355,370</u>

d. Employee benefits expense

	For the Three Months Ended March 31	
	2018	2017
Short-term benefits	<u>\$ 3,265,950</u>	<u>\$ 2,847,457</u>
Post-employment benefits		
Defined contribution plans	86,041	109,236
Defined benefit plans	<u>2,766</u>	<u>1,814</u>
	<u>88,807</u>	<u>111,050</u>
Share-based payments (Note 33)		
Equity-settled share-based payments	<u>8,887</u>	<u>52,318</u>
Total employee benefits expense	<u>\$ 3,363,644</u>	<u>\$ 3,010,825</u>
An analysis of employee benefits expense - by function		
Operating costs	\$ 459,604	\$ 684,094
Operating expenses	<u>2,904,040</u>	<u>2,326,731</u>
	<u>\$ 3,363,644</u>	<u>\$ 3,010,825</u>

In compliance with the HTC's Articles of Incorporation, the amendments stipulate distribution of employees' compensation and remuneration to directors and supervisors at the rates of no less than 4% and of no more than 0.25%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The employees' compensation was NT\$849,232 thousand estimated as 4% of net profit before income tax after offsetting a deficit for the three months ended March 31, 2018. No employee's compensation and remuneration to directors and supervisors were estimated as the Company reported net losses for the three months ended March 31, 2017.

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

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

e. Impairment loss

	For the Three Months Ended March 31	
	2018	2017
Inventories (included in operating costs)	<u>\$ 85,186</u>	<u>\$ 1,385,920</u>

f. Gain or loss on foreign currency exchange

	For the Three Months Ended March 31	
	2018	2017
Foreign exchange gain	\$ 859,038	\$ 319,738
Foreign exchange loss	(816,523)	(114,467)
Valuation loss arising from financial instruments classified as held for trading	-	(117,299)
Valuation gain arising from financial instruments at fair value	22,872	-
Ineffective portion of cash flow hedge	<u>-</u>	<u>772</u>
	<u>\$ 65,387</u>	<u>\$ 88,744</u>

28. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax expense (benefit) recognized in profit or loss

	For the Three Months Ended March 31	
	2018	2017
Current tax		
In respect of the current period	\$ 26,161	\$ 47,915
Deferred tax		
In respect of the current period	<u>5,279,055</u>	<u>(56,110)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 5,305,216</u>	<u>\$ (8,195)</u>

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax assessments

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

The income tax returns of Yoda Co., Ltd. for the years through 2015 have been examined and approved by the tax authorities. HTC Investment Corporation and HTC I Investment Corporation for the years through 2016 have been examined and approved by the tax authorities.

29. EARNINGS (LOSS) PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended March 31	
	2018	2017
Basic earnings (loss) per share	<u>\$ 25.70</u>	<u>\$ (2.47)</u>
Diluted earnings (loss) per share	<u>\$ 25.31</u>	<u>\$ (2.47)</u>

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

Net Profit (Loss) for the Period

	For the Three Months Ended March 31	
	2018	2017
Profit (loss) for the period attributable to owners of the parent	<u>\$ 21,096,192</u>	<u>\$ (2,032,545)</u>

Shares

	Unit: In Thousands of Shares	
	For the Three Months Ended March 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	820,935	821,941
Effect of potentially dilutive ordinary shares:		
Employee share options	10	-
Employees' compensation issued to employees	<u>12,470</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	<u>833,415</u>	<u>821,941</u>

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

The exercise price of the outstanding options issued by the Company beneath the average market price of the shares during the three months ended March 31, 2018 which is included in the computation of diluted earnings per share. The exercise price of the options issued by the Company exceeded the average market price of the shares during the three months ended March 31, 2017 which were anti-dilutive and excluded from the computation of diluted earnings per share.

30. BUSINESS COMBINATIONS

a. Subsidiaries acquired

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

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

b. Considerations transferred

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

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

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

d. Non-controlling interests

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

e. Goodwill recognized on acquisition

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

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

f. Net cash inflow on acquisition of subsidiaries

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

g. Impact of acquisitions on the results of the Company

Had these business combinations been in effect at the beginning of the annual reporting period, the Company's revenue from continuing operations would have been NT\$14,530,823 thousand, and the loss from continuing operations would have been (NT\$2,043,991) thousand for the three months ended March 31, 2017. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that actually would have been achieved had the acquisition been completed on August 2, 2017, nor is it intended to be a projection of future results.

31. DISPOSAL OF SUBSIDIARIES

On September 21, 2017, the Company entered into a sale agreement with Google Inc. ("Google") to dispose 100% equity interest of Communication Global Certification Inc. ("CGC"). CGC is engaged in providing import of controlled telecommunications radio-frequency devices and software services. The transaction was completed at January 30, 2018, and thereafter the Company lost its control on CGC

a. Consideration received from the disposal

	CGC
Consideration received in cash	<u>\$ 410,857</u>

b. Analysis of assets and liabilities on the date control was lost

	CGC
Current assets	
Cash and cash equivalents	\$ 303,939
Others	9,474
Non-current assets	
Property, plant and equipment	105,170
Others	1,662
Current liabilities	(23,091)
Non-current liabilities	<u>(1,693)</u>
Net assets disposed of	<u>\$ 395,461</u>

c. Gain on disposal of subsidiary

	CGC
Consideration received	\$ 410,857
Less: Net assets disposed of	<u>(395,461)</u>
Gain on disposal	<u>\$ 15,396</u>

d. Net cash inflow on disposal of subsidiary

	CGC
Consideration received in cash and cash equivalents	\$ 410,857
Less: Cash and cash equivalent balances disposed of	<u>(303,939)</u>
	<u>\$ 106,918</u>

32. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

Operating leases relate to leases of land and buildings with lease terms between 1 and 10 years. All operating lease contracts over 5 years contain clauses for 5-year market rental reviews. The Company does not have a bargain purchase option to acquire the leased land at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	March 31, 2018	December 31, 2017	March 31, 2017
Not later than 1 year	\$ 132,541	\$ 131,412	\$ 107,521
Later than 1 year and not later than 5 years	273,422	292,137	301,710
Later than 5 years	<u>56,293</u>	<u>66,902</u>	<u>98,671</u>
	<u>\$ 462,256</u>	<u>\$ 490,451</u>	<u>\$ 507,902</u>

The Company as Lessor

Operating leases relate to leasing of investment properties with lease terms 1 to 2 years. All operating lease contracts contain market review clauses in the event that the lessees exercise their options to renew. The lessees do not have bargain purchase options to acquire the properties at the expiry of the lease periods.

The receivables of non-cancellable operating lease commitments were as follows:

	March 31, 2018	December 31, 2017	March 31, 2017
Not later than 1 year	\$ 463,484	\$ -	\$ 2,286
Later than 1 year and not later than 5 years	240,754	-	-
Later than 5 years	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 704,238</u>	<u>\$ -</u>	<u>\$ 2,286</u>

33. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

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

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

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

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

Information on employee share options were as follows:

	For the Three Months Ended March 31			
	2018		2017	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance, beginning of period	16,068	\$137.45	20,072	\$136.65
Options exercised	(149)		-	
Options forfeited	(249)		(476)	
Balance, end of period	<u>15,670</u>	138.12	<u>19,596</u>	136.81
Options exercisable, end of period	<u>15,403</u>		<u>14,318</u>	

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

	March 31, 2018	December 31, 2017	March 31, 2017
Range of exercise price (NT\$)	\$54.5-\$149	\$54.5-\$149	\$54.5-\$149
Weighted-average remaining contractual life (years)	4.99 years	5.24 years	6.05 years

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

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

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

Employee Restricted Shares

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

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

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

If an employee fails to meet the vesting conditions, HTC will recall or buy back and cancel the restricted shares. In 2017 and March 2018, HTC retired 1,193 thousand and 16 thousand restricted shares for employees amounting to NT\$11,926 thousand and NT\$162 thousand, respectively. As a result, the numbers of the HTC's issued and outstanding employee restricted shares as of March 31, 2018 was 3,191 thousand shares. The related information was as follows:

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

Compensation Cost of Share-based Payment Arrangements

Compensation cost of share-based payment arrangement recognized was NT\$8,887 thousand and NT\$52,318 thousand for the three months ended March 31, 2018 and 2017, respectively.

34. 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.

35. FINANCIAL INSTRUMENTS

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

Financial instruments not carried at fair value held by the Company include financial assets measured at cost. The management considers that the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair value or the fair value are not measured reliably.

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

a. Fair value hierarchy

March 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	\$ -	\$ 108,518	\$ -	\$ 108,518
Convertible bonds	-	-	124,640	124,640
Warrants	-	-	<u>15,142</u>	<u>15,142</u>
	<u>\$ -</u>	<u>\$ 108,518</u>	<u>\$ 139,782</u>	<u>\$ 248,300</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market shares				
Domestic listed shares and emerging market shares	\$ 354	\$ -	\$ -	\$ 354
Domestic unlisted stocks	-	-	572,868	572,868
Overseas listed stocks	355,614	-	-	355,614
Overseas unlisted stocks	-	-	1,707,330	1,707,330
Overseas unlisted beneficiary certificate	-	-	<u>677,625</u>	<u>677,625</u>
	<u>\$ 355,968</u>	<u>\$ -</u>	<u>\$ 2,957,823</u>	<u>\$ 3,313,791</u>
Financial liabilities at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	<u>\$ -</u>	<u>\$ 85,646</u>	<u>\$ -</u>	<u>\$ 85,646</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 65,199</u>	<u>\$ -</u>	<u>\$ 65,199</u>
Available-for-sale financial assets				
Investments in equity instruments				
Domestic listed stocks	\$ 91	\$ -	\$ -	\$ 91
Overseas listed stocks	<u>312,106</u>	<u>-</u>	<u>-</u>	<u>312,106</u>
	<u>\$ 312,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 312,197</u>
Financial liabilities at FVTPL				
Derivative financial instruments				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 75,184</u>	<u>\$ -</u>	<u>\$ 75,184</u>

March 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	\$ <u>-</u>	\$ <u>77,332</u>	\$ <u>-</u>	\$ <u>77,332</u>
Available-for-sale financial assets				
Investments in equity instruments				
Domestic listed stocks	\$ 96	\$ -	\$ -	\$ 96
Overseas listed stocks	<u>236,144</u>	<u>-</u>	<u>-</u>	<u>236,144</u>
	<u>\$ 236,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 236,240</u>
Financial liabilities at FVTPL				
Derivative financial instruments	\$ <u>-</u>	\$ <u>194,631</u>	\$ <u>-</u>	\$ <u>194,631</u>
Hedging derivative liabilities				
Derivative financial instruments	\$ <u>-</u>	\$ <u>12,110</u>	\$ <u>-</u>	\$ <u>12,110</u>

There were no transfers between Levels 1 and 2 for the three months ended March 31, 2018 and 2017.

b. Reconciliation of Level 3 fair value measurements of financial instruments

For the three months ended March 31, 2018

Financial Assets	Financial Assets at FVTPL Derivatives	Financial Assets at FVTOCI Equity Instruments	Total
Balance at January 1, 2018	\$ 131,742	\$ 3,024,565	\$ 3,156,307
Recognized in other comprehensive income	-	(29,067)	(29,067)
Reclassification	(7,378)	7,378	-
Purchases	18,663	14,235	32,898
Effect of foreign currency exchange differences	<u>(3,245)</u>	<u>(59,288)</u>	<u>(62,533)</u>
Balance at March 31, 2018	<u>\$ 139,782</u>	<u>\$ 2,957,823</u>	<u>\$ 3,097,605</u>

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

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

d. Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

For fair value measurements categorized within Level 3 of the fair value hierarchy as derivatives and investments in equity instruments, the lack of quoted prices in an active market categorized the financial assets into Level 3 which fair value are based on valuation provided by market participants or quoted prices of the counter party. Quantitative information is not disclosed since the relationship between significant unobservable inputs and the fair value cannot be fully controlled.

e. Valuation process for the fair value measurement within Level 3

The investment department will confirm the reliability, independence and correspondence of the information sources in representative of the exercise price. Any adjustment should be made in order to insure the rationality of the valuation presented.

f. Sensitivity analysis of the fair value regarding reasonable and possible alternative assumption within Level 3.

No sensitive analysis of replacement assumption need to be implemented for the valuation of financial instruments as fair value measurement within Level 3 since the valuation by the Company is reasonable without adopting a self-estimated model.

Categories of Financial Instruments

	March 31, 2018	December 31, 2017	March 31, 2017
<u>Financial assets</u>			
Financial assets at FVTPL			
Held for trading (Note 1)	\$ -	\$ 196,941	\$ 77,332
Mandatorily at FVTPL	248,300	-	-
Loans and receivables (Note 2)	-	27,211,199	43,818,298
Available-for-sale financial assets (Note 3)	-	3,367,695	3,502,347
Amortized cost (Note 4)	51,158,343	-	-
Financial assets at FVTOCI			
Equity instruments	3,313,791	-	-
<u>Financial liabilities</u>			
Financial liabilities at FVTPL			
Held for trading	85,646	75,184	194,631
Derivatives financial liabilities	-	-	12,110
Amortized cost (Note 5)	22,562,512	26,389,180	37,580,490

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

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

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

Note 4: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, other financial assets, trade receivables, other receivables and refundable deposits.

Note 5: The balances include financial liabilities measured at amortized cost, which comprise short-term loans, note and trade payables, other payables, agency receipts and guarantee deposits received.

Financial Risk Management Objectives and Policies

The Company's major financial instruments include equity and debt investments, trade receivables, other receivables, trade payables and other payables. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze the exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

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

The Corporate Treasury function reports quarterly to the Company's supervisory and Board of Directors for monitoring risks and policies implemented to mitigate risk exposures.

a. Market risk

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

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

Foreign currency risk

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

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 39.

Sensitivity analysis

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

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges. A positive number below indicates an increase in pre-tax profit (loss) or equity associated with the NTD strengthens 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be an equal and opposite impact on pre-tax profit (loss) or equity, and the balances below would be negative.

	Profit or Loss	Equity
<u>For the three months ended March 31, 2018</u>		
USD	\$ (50,482)	\$ (129,708)
EUR	59	(5,401)
RMB	(12,245)	(97,891)
JPY	(1,681)	(1,434)
<u>For the three months ended March 31, 2017</u>		
USD	23,613	(155,158)
EUR	1,587	(18,482)
RMB	(17,794)	(105,997)
JPY	7,597	(1,288)

b. Credit risk

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

The Company adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The credit risk information of trade receivables are disclosed in the Note 12.

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 rate tables for non-derivative financial liabilities

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

March 31, 2018

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 6,386,944	\$ 4,989,149	\$ -
Other payables	5,522,745	5,471,762	-
Other current liabilities	83,172	-	-
Guarantee deposits received	-	-	108,740
	<u>\$ 11,992,861</u>	<u>\$ 10,460,911</u>	<u>\$ 108,740</u>

December 31, 2017

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

March 31, 2017

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Short-term borrowings	\$ 2,756,560	\$ -	\$ -
Note and trade payables	11,585,202	9,524,265	-
Other payables	7,184,273	6,385,381	-
Other current liabilities	106,929	31,591	-
Guarantee deposits received	-	-	6,289
	<u>\$ 21,632,964</u>	<u>\$ 15,941,237</u>	<u>\$ 6,289</u>

2) Liquidity risk rate tables for derivative financial instruments

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

March 31, 2018

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	\$ 39,131	\$ -	\$ -
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 18,832,711	\$ -	\$ -
Outflows	<u>(18,844,596)</u>	<u>-</u>	<u>-</u>
	<u>\$ (11,885)</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2017

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

March 31, 2017

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	\$ (35,277)	\$ -	\$ -
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 11,966,365	\$ 669,121	\$ -
Outflows	<u>(12,029,129)</u>	<u>(678,200)</u>	<u>-</u>
	<u>\$ (62,764)</u>	<u>\$ (9,079)</u>	<u>\$ -</u>

3) Bank credit limit

	March 31, 2018	December 31, 2017	March 31, 2017
Unsecured bank general credit limit			
Amount used	\$ 469,090	\$ 294,870	\$ 3,384,356
Amount unused	<u>18,007,740</u>	<u>18,315,345</u>	<u>18,032,724</u>
	<u>\$ 18,476,830</u>	<u>\$ 18,610,215</u>	<u>\$ 21,417,080</u>

Amount used was included short-term borrowings, guarantee for customs duties and for patent litigation.

36. RELATED-PARTY TRANSACTIONS

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

The Names and Relationships of Related-Parties

<u>Related-Party</u>	<u>Relationship with the Company</u>
VIA Technologies Inc.	Its chairman in substance is HTC's director
VIA Labs, Inc.	Its chairman in substance is HTC's director
Way Chih Investment Co., Ltd.	HTC's supervisor
HTC Education Foundation	Its chairman in substance is HTC's director
TVBS Media Inc.	Same director as HTC's
Employees' Welfare Committee	Employees' Welfare Committee of HTC
Atrust Computer Corporation	Its general manager in substance is HTC's director
VIA Technologies (China) Co., Ltd.	The chairman of its parent company in substance is HTC's director

Operating Sales

	For the Three Months Ended March 31	
	<u>2018</u>	<u>2017</u>
Other related parties	<u>\$ 4,084</u>	<u>\$ 4,815</u>

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

	March 31, 2018	December 31, 2017	March 31, 2017
Other related parties	<u>\$ 2,566</u>	<u>\$ 22,400</u>	<u>\$ 5</u>

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been given or received for trade receivables from related parties. Trade receivables from related parties are assessed without bad debt risk hence no bad debt expense had been recognized for the three months ended March 31, 2018 and 2017.

Purchase

	For the Three Months Ended March 31	
	2018	2017
Other related parties	<u>\$ 2,314</u>	<u>\$ 2,276</u>

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

	March 31, 2018	December 31, 2017	March 31, 2017
Other related parties	<u>\$ 2,789</u>	<u>\$ 960</u>	<u>\$ 2,454</u>

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

Compensation of Key Management Personnel

	For the Three Months Ended March 31	
	2018	2017
Short-term benefits	\$ 84,371	\$ 21,791
Post-employment benefits	160	428
Share-based payments	<u>2,061</u>	<u>12,575</u>
	<u>\$ 86,592</u>	<u>\$ 34,794</u>

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

Rental Expenses

	For the Three Months Ended March 31	
	2018	2017
VIA Technologies (China) Co., Ltd.	\$ 6,015	\$ 2,465
Other related parties	<u>1,113</u>	<u>1,195</u>
	<u>\$ 7,128</u>	<u>\$ 3,660</u>

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

Other Related-party Transactions

Other related parties provide selling and marketing service to the Company. The selling and marketing service expenses was NT\$1,000 thousand for the three months ended March 31, 2017. As of March 31, 2017, the unpaid selling and marketing service expenses was NT\$1,050 thousand.

37. PLEDGED ASSETS

As of March 31, 2018, December 31, 2017 and March 31, 2017, the time of deposits amounting to NT\$291,180 thousand, NT\$149,810 thousand and NT\$106,707 thousand and were classified as other financial assets were provided respectively as collateral for rental deposits, litigation and vendors cooperation.

38. 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 implemented the alternative solution since 2012. The Company evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against the alternative solution of the Company are very unlikely.

In March 2012, Washington Court granted on the Company’s summary judgment motion and ruled on non-infringement of two of patents-in-suit. As for the third patents-in-suit, the Washington Court has granted a stay on case pending appeal decision. In January 2014, the Court of Appeal for the Federal Circuit affirmed the Washington Court’s decision.

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

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

- b. In December 2015, Koninklijke Philips N.V. (Philips) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging infringement of certain Philips patents. In October 2016, the Mannheim Court found that certain smartphone products sold by Company in Germany infringed the German part of European patent No. 0888687 (EP ‘687 patent), which relates to device user interface, and granted an injunction against the Company. However, Philips’ attempts to enforce an injunction based on this patent were unsuccessful due to a workaround, supplied by Google, being implemented in HTC devices. In July 2017, the German Federal Patent Court found that EP ‘687 patent is invalid. The litigations between the Company and Philips are ongoing. In order to protect the interests of the Company, and its customers, the Company has appealed the Court’s decision.

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

In March 2017, Philips filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging infringement of European patent No. 1356367 (EP '367 patent), which relates to dimming control of a device screen. The infringement trial is scheduled for 22 June 2018.

In October 2017, the court of appeal of the United Kingdom dismissed HTC's appeal allegation that the rights we obtain by virtue of a covenant between Philips and Qualcomm Incorporated extend to Philips' patents covering HSPA technology. As such, the covenant does not provide HTC with a defense against the patent actions in suit relating to this technology. The technical hearings of the three patents in suit will now proceed as follows: EP (UK) 1440525 is scheduled on April 23, 2018 whilst EP (UK) 1685659 and EP (UK) 1623511 are both scheduled on June 18, 2018.

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

39. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	March 31, 2018		December 31, 2017		March 31, 2017	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>						
Monetary items						
USD	\$ 1,881,657	29.12	\$ 1,156,853	29.84	\$ 1,640,022	30.33
EUR	99,155	35.88	63,262	35.66	62,984	32.42
JPY	7,050,892	0.2742	5,825,499	0.2648	2,657,176	0.2713
RMB	1,233,689	4.65	1,188,839	4.58	886,658	4.41
Non-monetary items						
USD	98,568	29.12	85,590	29.84	86,562	30.33
RMB	1,536	4.65	1,536	4.58	669	4.41
Investments accounted for by the equity method						
USD	13,074	29.12	13,460	29.84	15,023	30.33
RMB	1,310	4.65	2,513	4.58	2,435	4.41
<u>Financial liabilities</u>						
Monetary items						
USD	1,265,624	29.12	793,530	29.84	1,231,452	30.33
EUR	73,659	35.88	66,494	35.66	52,670	32.42
JPY	5,657,152	0.2742	4,922,152	0.2648	7,559,939	0.2713
RMB	238,463	4.65	179,398	4.58	163,445	4.41

For the three months ended March 31, 2018 and 2017, realized and unrealized net foreign exchange gains were NT\$65,387 thousand and NT\$88,744 thousand, respectively. It is impractical to disclose net foreign exchange gains or losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

40. SIGNIFICANT CONTRACTS

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

Contractor	Term	Description
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units, royalty payment based on agreement.
Nokia Corporation	January 1, 2014 - December 31, 2018	Patent and technology collaboration; payment for use of implementation patents based on agreement.
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; royalty payment based on agreement.
Koninklijke Philips Electronics N.V.	January 5, 2004 to the expiry dates of these patents stated in the agreement.	GSM/DCS 1800/1900 patent license; royalty payment based on agreement.
MOTOROLA, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents stated in the agreement. b. Any time when the Company is not using any of Motorola's intellectual properties.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA standards patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

40. SEGMENT INFORMATION

The Company is organized and managed as a single reportable business segment. The Company's operations are mainly in the research, design, manufacture, sale of smart mobile and virtual reality devices which the operating revenue is more than 90 percent of the total revenue. The Company is considered single segment. The basis of information reported to the chief operating decision maker is the same as the financial statements. Because the basis of segment information reported to the chief operating decision maker is the same as the financial statements, the segment revenue and results for the three months ended March 31, 2018 and 2017 can be referred to in the consolidated statements of comprehensive income and the segment assets and liabilities as of March 31, 2018 and 2017 can be referred to in the consolidated balance sheets.