

# **HTC Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Six Months Ended June 30, 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 June 30, 2018 and 2017, consolidated statements of comprehensive income for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, consolidated statements of changes in equity and cash flows for the six months ended June 30, 2018 and 2017 and the 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 of June 30, 2018 and 2017, its consolidated financial performance for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017 and its consolidated cash flows for the six months ended June 30, 2018 and 2017, 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 the Republic of China (Taiwan) (referred to thereafter as 'FSC').

## **Emphasis of Matter**

As disclosed in Note 3 to the consolidated financial statements, the Company 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 the accounting policies, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate its consolidated financial statements of the prior reporting periods on the basis of the facts and circumstances that existed as of 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

July 27, 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 auditors' 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	June 30, 2018 (Reviewed)		December 31, 2017 (Audited)		June 30, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Note 6)	\$ 29,311,099	37	\$ 10,443,227	16	\$ 25,119,152	27
Financial assets at fair value through profit or loss - current (Note 7)	541,782	1	65,199	-	208,770	-
Financial assets at fair value through other comprehensive income - current (Note 9)	442,106	1	-	-	-	-
Available-for-sale financial assets - current	-	-	312,106	-	278,161	-
Trade receivables, net (Notes 12 and 36)	3,526,821	4	8,537,096	13	10,952,995	12
Other receivables (Note 12)	256,226	-	103,497	-	183,980	-
Current tax assets	131,245	-	131,901	-	149,311	-
Inventories (Note 13)	5,006,623	6	7,381,426	11	14,955,175	16
Prepayments (Note 14)	1,444,846	2	1,742,986	3	1,589,180	2
Non-current assets held for sale (Note 15)	-	-	1,647,763	3	1,592,749	2
Other current financial assets (Notes 11 and 37)	16,722,067	21	7,988,363	12	5,910,547	7
Other current assets	161,703	-	135,821	-	29,244	-
Total current assets	<u>57,544,518</u>	<u>72</u>	<u>38,489,385</u>	<u>58</u>	<u>60,969,264</u>	<u>66</u>
<b>NON-CURRENT ASSETS</b>						
Financial assets at fair value through profit or loss - non-current (Note 7)	156,900	-	-	-	-	-
Financial assets at fair value through other comprehensive income - non-current (Note 9)	2,770,536	3	-	-	-	-
Available-for-sale financial assets - non-current	-	-	91	-	85	-
Financial assets measured at cost - non-current (Note 10)	-	-	3,187,240	5	3,283,360	4
Investments accounted for using the equity method (Note 17)	397,903	1	413,120	1	445,205	-
Property, plant and equipment (Note 18)	8,503,733	11	10,798,613	16	11,550,121	13
Investment properties, net (Note 19)	2,117,598	3	-	-	-	-
Intangible assets (Note 20)	1,751,780	2	2,315,441	3	2,980,230	3
Deferred tax assets	3,937,116	5	8,990,648	14	8,987,568	10
Refundable deposits	132,937	-	139,016	-	1,362,163	1
Net defined benefit asset - non-current	25,955	-	18,119	-	46,420	-
Other non-current financial assets (Notes 11 and 37)	152,463	-	-	-	-	-
Other non-current assets (Note 14)	2,186,457	3	2,233,733	3	2,448,793	3
Total non-current assets	<u>22,133,378</u>	<u>28</u>	<u>28,096,021</u>	<u>42</u>	<u>31,103,945</u>	<u>34</u>
<b>TOTAL</b>	<u>\$ 79,677,896</u>	<u>100</u>	<u>\$ 66,585,406</u>	<u>100</u>	<u>\$ 92,073,209</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Short-term borrowings (Note 21)	\$ -	-	\$ -	-	\$ 8,550,000	9
Financial liabilities at fair value through profit or loss - current (Note 7)	334,147	-	75,184	-	78,069	-
Derivative financial liabilities for hedging - current (Note 8)	-	-	-	-	8,130	-
Note and trade payables (Notes 22 and 36)	11,584,331	15	14,569,222	22	17,799,288	20
Other payables (Notes 23 and 36)	10,395,111	13	11,681,890	18	12,133,291	13
Current tax liabilities	372,805	1	253,240	-	164,450	-
Provisions - current (Note 24)	2,697,269	3	3,377,201	5	3,008,599	3
Other current liabilities (Note 23)	1,367,468	2	2,850,713	4	3,520,051	4
Total current liabilities	<u>26,751,131</u>	<u>34</u>	<u>32,807,450</u>	<u>49</u>	<u>45,261,878</u>	<u>49</u>
<b>NON-CURRENT LIABILITIES</b>						
Deferred tax liabilities	56,232	-	47,147	-	83,548	-
Guarantee deposits received	110,541	-	5,681	-	6,133	-
Other non-current liabilities (Note 23)	-	-	-	-	114,120	-
Total non-current liabilities	<u>166,773</u>	<u>-</u>	<u>52,828</u>	<u>-</u>	<u>203,801</u>	<u>-</u>
Total liabilities	<u>26,917,904</u>	<u>34</u>	<u>32,860,278</u>	<u>49</u>	<u>45,465,679</u>	<u>49</u>
<b>EQUITY (Note 25)</b>						
Share capital - ordinary shares	8,192,617	10	8,208,261	12	8,217,952	9
Capital surplus	15,575,798	20	15,551,491	24	15,638,510	17
Retained earnings						
Legal reserve	18,297,655	23	18,297,655	27	18,297,655	20
Unappropriated earnings (accumulated deficits)	12,990,038	16	(6,093,403)	(9)	6,858,309	7
Other equity	(2,373,249)	(3)	(2,268,428)	(3)	(2,404,896)	(2)
Total equity attributable to owners of the parent	52,682,859	66	33,695,576	51	46,607,530	51
<b>NON-CONTROLLING INTERESTS</b>						
	77,133	-	29,552	-	-	-
Total equity	<u>52,759,992</u>	<u>66</u>	<u>33,725,128</u>	<u>51</u>	<u>46,607,530</u>	<u>51</u>
<b>TOTAL</b>	<u>\$ 79,677,896</u>	<u>100</u>	<u>\$ 66,585,406</u>	<u>100</u>	<u>\$ 92,073,209</u>	<u>100</u>

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

(With Deloitte & Touche review report dated July 27, 2018)

## HTC CORPORATION AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 26 and 36)	\$ 6,774,460	100	\$ 16,135,909	100	\$ 15,563,203	100	\$ 30,666,732	100
OPERATING COST (Notes 13, 27 and 36)	6,594,478	97	13,921,030	86	15,568,685	100	26,088,667	85
GROSS PROFIT (LOSS)	179,982	3	2,214,879	14	(5,482)	-	4,578,065	15
OPERATING EXPENSES (Notes 27 and 36)								
Selling and marketing	955,875	14	1,068,304	7	2,213,515	14	2,339,327	8
General and administrative	1,007,436	15	691,446	4	1,875,227	12	1,566,822	5
Research and development	1,652,484	25	2,652,449	17	4,245,433	28	5,226,837	17
Total operating expenses	3,615,795	54	4,412,199	28	8,334,175	54	9,132,986	30
OPERATING LOSS	(3,435,813)	(51)	(2,197,320)	(14)	(8,339,657)	(54)	(4,554,921)	(15)
NON-OPERATING INCOME AND EXPENSES								
Other income (Note 27)	302,572	4	130,577	1	587,383	4	402,766	1
Other gains and losses (Notes 8, 27 and 31)	1,074,564	16	144,327	1	32,101,717	206	225,858	1
Finance costs	(691)	-	(8,815)	-	(692)	-	(11,282)	-
Share of the loss of associates (Note 17)	(10,157)	-	(28,804)	-	(23,496)	-	(63,196)	-
Total non-operating income and expenses	1,366,288	20	237,285	2	32,664,912	210	554,146	2
(LOSS) PROFIT BEFORE INCOME TAX	(2,069,525)	(31)	(1,960,035)	(12)	24,325,255	156	(4,000,775)	(13)
INCOME TAX (EXPENSE) BENEFIT (Note 28)	(15,620)	-	9,464	-	(5,320,836)	(34)	17,659	-
(LOSS) PROFIT FOR THE PERIOD	(2,085,145)	(31)	(1,950,571)	(12)	19,004,419	122	(3,983,116)	(13)
OTHER COMPREHENSIVE INCOME AND LOSS, NET OF INCOME TAX								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(362,536)	(5)	-	-	(340,290)	(2)	-	-

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## HTC CORPORATION AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	\$ 543,339	8	\$ 440,496	3	\$ 356,221	2	\$ (1,365,319)	(4)
Unrealized gain on available-for-sale financial assets	-	-	40,865	-	-	-	90,909	-
Cash flow hedge	-	-	1,214	-	-	-	(11,668)	-
Other comprehensive income and loss for the period, net of income tax	180,803	3	482,575	3	15,931	-	(1,286,078)	(4)
<b>TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD</b>	<b>\$ (1,904,342)</b>	<b>(28)</b>	<b>\$ (1,467,996)</b>	<b>(9)</b>	<b>\$ 19,020,350</b>	<b>122</b>	<b>\$ (5,269,194)</b>	<b>(17)</b>
<b>NET (LOSS) PROFIT ATTRIBUTABLE TO:</b>								
Owners of the parent	\$ (2,074,417)	(31)	\$ (1,950,571)	(12)	\$ 19,021,775	122	\$ (3,983,116)	(13)
Non-controlling interests	(10,728)	-	-	-	(17,356)	-	-	-
	<u>\$ (2,085,145)</u>	<u>(31)</u>	<u>\$ (1,950,571)</u>	<u>(12)</u>	<u>\$ 19,004,419</u>	<u>122</u>	<u>\$ (3,983,116)</u>	<u>(13)</u>
<b>TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:</b>								
Owners of the parent	\$ (1,896,750)	(28)	\$ (1,467,996)	(9)	\$ 19,035,289	122	\$ (5,269,194)	(17)
Non-controlling interests	(7,592)	-	-	-	(14,939)	-	-	-
	<u>\$ (1,904,342)</u>	<u>(28)</u>	<u>\$ (1,467,996)</u>	<u>(9)</u>	<u>\$ 19,020,350</u>	<u>122</u>	<u>\$ (5,269,194)</u>	<u>(17)</u>
<b>(LOSS) EARNINGS PER SHARE (Note 29)</b>								
Basic	\$ (2.53)		\$ (2.37)		\$ 23.19		\$ (4.85)	
Diluted	\$ (2.53)		\$ (2.37)		\$ 22.82		\$ (4.85)	

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

(With Deloitte & Touche review report dated July 27, 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							Total	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					
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 six months ended June 30, 2017	-	-	-	(3,983,116)	-	-	-	-	-	(3,983,116)	-	(3,983,116)		
Other comprehensive income and loss for the six months ended June 30, 2017	-	-	-	-	(1,365,319)	-	90,909	(11,668)	-	(1,286,078)	-	(1,286,078)		
Share-based payments	(2,135)	23,869	-	-	-	-	-	-	83,484	105,218	-	105,218		
BALANCE, JUNE 30, 2017	\$ 8,217,952	\$ 15,638,510	\$ 18,297,655	\$ 6,858,309	\$ (2,146,617)	\$ -	\$ (76,173)	\$ (11,668)	\$ (170,438)	\$ 46,607,530	\$ -	\$ 46,607,530		
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 six months ended June 30, 2018	-	-	-	19,021,775	-	-	-	-	-	19,021,775	(17,356)	19,004,419		
Other comprehensive income and loss for the six months ended June 30, 2018	-	-	-	-	353,804	(340,290)	-	-	-	13,514	2,417	15,931		
Issuance of shares from exercise of employee share options	1,490	6,631	-	-	-	-	-	-	-	8,121	-	8,121		
Changes in percentage of ownership interests in subsidiaries	-	-	-	(43,066)	-	-	-	-	-	(43,066)	62,520	19,454		
Share-based payments	(17,134)	17,676	-	-	-	-	-	-	17,329	17,871	-	17,871		
BALANCE, JUNE 30, 2018	\$ 8,192,617	\$ 15,575,798	\$ 18,297,655	\$ 12,990,038	\$ (1,829,344)	\$ (511,644)	\$ -	\$ -	\$ (32,261)	\$ 52,682,859	\$ 77,133	\$ 52,759,992		

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

(With Deloitte & Touche review report dated July 27, 2018)

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended	
	June 30	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit (loss) before income tax	\$ 24,325,255	\$ (4,000,775)
Adjustments for:		
Depreciation expenses	276,032	531,914
Amortization expenses	594,348	700,662
Expected credit loss reversed on trade receivables	-	(362,870)
Finance costs	692	11,282
Interest income	(311,543)	(150,970)
Dividend income	-	(15,862)
Compensation costs of employee share-based payments	17,871	105,218
Share of the loss of associates	23,496	63,196
Net loss on disposal of property, plant and equipment	2,491	4,930
Net gain on disposal of assets and licensing income (Note 27)	(31,285,385)	-
Net gain on disposal of non-current assets held for sale	(1,077,246)	-
Gain on disposal of investments	-	(24,305)
Net gain on disposal of subsidiary	(15,396)	-
Impairment loss on non-financial assets	590,490	2,238,027
Ineffective portion of cash flow hedges	-	(3,538)
Changes in operating assets and liabilities		
Increase in financial instruments held for trading	-	(120,479)
Increase in financial assets mandatorily classified as at fair value through profit or loss	(217,620)	-
Decrease in trade receivables	5,006,689	5,371,710
(Increase) decrease in other receivables	(128,042)	13,687
Decrease (increase) in inventories	1,784,313	(3,029,631)
Decrease in prepayments	292,252	244,319
(Increase) decrease in other current assets	(25,882)	39,170
Decrease in other non-current assets	18,259	152,163
Decrease in note and trade payables	(2,984,891)	(8,448,440)
Decrease in other payables	(1,250,120)	(6,197,299)
Decrease in provisions	(679,932)	(375,712)
Decrease in other current liabilities	(106,724)	(898,385)
Increase in other operating liabilities	-	114,120
Cash used in operations	(5,150,593)	(14,037,868)
Interest received	286,856	121,829
Interest paid	(692)	(6,697)
Income taxes (paid) refunded	(133,055)	16,938
Net cash used in operating activities	<u>(4,997,484)</u>	<u>(13,905,798)</u>

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# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at fair value through other comprehensive income	\$ (144,463)	\$ -
Purchase of debt investment with no active market	-	(32,918)
Purchase of financial assets measured at cost	-	(73,229)
Proceeds from sale of financial assets measured at cost	-	85,169
Acquisition of associates	-	(6,019)
Net cash inflow on disposal of subsidiary	106,918	-
Proceeds from disposal of non-current assets held for sale	2,748,931	-
Payments for property, plant and equipment	(283,379)	(95,728)
Proceeds from disposal of property, plant and equipment	81,649	2,168
(Decrease) increase in advance receipts - disposal of property	(1,374,465)	1,388,243
Decrease in refundable deposits	6,079	139,317
Increase in other current financial assets	(8,886,167)	(160,097)
Dividends received	-	15,862
Proceeds from disposal of assets and licensing income (Note 27)	<u>31,285,385</u>	<u>-</u>
Net cash generated from investing activities	<u>23,540,488</u>	<u>1,262,768</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term borrowings	-	8,550,000
Proceeds from guarantee deposits received	104,860	-
Refund of guarantee deposits received	-	(15,973)
Proceeds from exercise of employee share options	8,121	-
Change in non-controlling interests	<u>19,454</u>	<u>-</u>
Net cash generated from financing activities	<u>132,435</u>	<u>8,534,027</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<u>192,433</u>	<u>(852,062)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	18,867,872	(4,961,065)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>10,443,227</u>	<u>30,080,217</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 29,311,099</u>	<u>\$ 25,119,152</u>

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

(With Deloitte & Touche review report dated July 27, 2018)

(Concluded)

# HTC CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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### 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 July 27, 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 on December 31, 2017.

## Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of 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 of 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	Mandatorily at 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 maturities 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) - mandatory 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)

- Cash and cash equivalents, time deposits with original maturities 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.
- Derivatives that previously classified as held-for-trading under IAS 39 were mandatorily classified as measured at FVTPL under IFRS 9.
- 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 NT\$312,197 thousand on January 1, 2018. The related other equity - unrealized gains or losses on available-for-sale financial assets of NT\$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 NT\$3,024,566 and a decrease of NT\$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. Refer to Note 4 for related accounting policies.

The patents licensed by the Company have their use by the authorized parties designated as uncommitted under the related agreements for which the Company has no remaining performance obligations. The patents to which the licenses relate have significant stand-alone functionalities, and under IFRS 15, the Company recognizes revenue when the licenses are transferred. Prior to the application of IFRS 15, royalties were recognized on a straight-line basis over the lives of the agreements.

The Company elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018. Except for the contracts signed on and after January 1, 2018, the contracts which were incomplete as of January, 1 2018 have 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\$801,515 thousand and an increase in liabilities of NT\$4,007,575 thousand on June 30, 2018. For the six months ended June 30, 2018, both net profit and total comprehensive income will decrease by NT\$3,206,060 thousand, and the basic earnings per share and diluted earnings per share will decrease by NT\$3.91 and NT\$3.85, respectively.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

<b>New, Amended or Revised Standards and Interpretations (the “New IFRSs”)</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
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: 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.

### Definition of a lease

Upon initial application of IFRS 16, the Company will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

### The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. The difference between the actual payments and the expenses, as adjusted for lease incentives, is recognized as accrued expenses. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate. Except for the following practical expedients which are to be applied, the Company will apply IAS 36 to all right-of-use assets.

The Company expects to apply the following practical expedients:

- a) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Company will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Company will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

The Company as lessor

Except for sublease transactions, the Company will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

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 Company expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

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.

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note)</b>
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

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

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of above 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 statements of 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 in 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 the 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 assets at FVTPL

Financial assets are 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 and other receivables and refundable deposits, are measured at amortized cost, which equals to their 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 assets that have 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 in 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 amounts 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 Losses (i.e. ECLs) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECLs 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 ECLs represents the expected credit losses that will result from all possible default events over the expected life of the financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECLs 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 amounts 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 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.

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018, 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. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income 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 dividends 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 and 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 hedged relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument 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 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 items, the amounts accumulated in other equity (i.e. gain or loss on hedging instruments - deferred hedging costs) 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 items, 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 the sale of goods

Revenue from the 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 receivables are 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 the rendering of services

Revenue from the rendering of services comes from product design, device examinations, and extended warranty services.

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 the 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 the sale of goods as the conditions are met. The related marketing and advertising expenses recognized as a reduction of the 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 June 30, 2018, December 31, 2017 and June 30, 2017, the carrying amounts of accrued marketing and advertising expenses were NT\$4,837,010 thousand, NT\$5,964,240 thousand and NT\$6,704,655 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 judgment 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 June 30, 2018, the carrying amount of impairment losses was NT\$3,891,877 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 June 30, 2017, the carrying amounts of allowances for doubtful debts were NT\$3,901,541 thousand and NT\$3,860,882 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 the 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 June 30, 2018, December 31, 2017 and June 30, 2017, the carrying amounts of inventories were NT\$5,006,623 thousand, NT\$7,381,426 thousand and NT\$14,955,175 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 other convincing 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 accounting estimates. Any changes in global economy, industry and regulations might cause material adjustments to deferred tax assets.

As of June 30, 2018, December 31, 2017 and June 30, 2017, the carrying amounts of deferred tax assets were NT\$3,937,116 thousand, NT\$8,990,648 thousand and NT\$8,987,568 thousand, respectively.

g. Estimates of warranty provisions

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

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

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

As of June 30, 2018, December 31, 2017 and June 30, 2017, the carrying amounts of warranty provisions were NT\$2,502,886 thousand, NT\$2,795,933 thousand and NT\$2,770,408 thousand, respectively.

## 6. CASH AND CASH EQUIVALENTS

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Cash on hand	\$ 1,715	\$ 1,901	\$ 1,790
Checking accounts and demand deposits	10,474,366	8,502,868	17,830,812
Time deposits (with original maturities of less than three months)	<u>18,835,018</u>	<u>1,938,458</u>	<u>7,286,550</u>
	<u>\$ 29,311,099</u>	<u>\$ 10,443,227</u>	<u>\$ 25,119,152</u>

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Financial assets</u>			
Financial assets held for trading			
Derivative financial assets (not under hedge accounting)			
Foreign exchange contracts	\$ -	\$ 65,199	\$ 208,770
Financial assets mandatorily classified as at FVTPL			
Derivative financial assets (not under hedge accounting)			
Foreign exchange contracts	541,782	-	-
Convertible bonds	141,044	-	-
Warrants	<u>15,856</u>	<u>-</u>	<u>-</u>
	<u>\$ 698,682</u>	<u>\$ 65,199</u>	<u>\$ 208,770</u>
Current	\$ 541,782	\$ 65,199	\$ 208,770
Non-current	<u>156,900</u>	<u>-</u>	<u>-</u>
	<u>\$ 698,682</u>	<u>\$ 65,199</u>	<u>\$ 208,770</u>

### Financial liabilities - current

Financial liabilities held for trading			
Derivative financial liabilities (not under hedge accounting)			
Foreign exchange contracts	<u>\$ 334,147</u>	<u>\$ 75,184</u>	<u>\$ 78,069</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 are as follows:

### **Forward Exchange Contracts**

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)
<u>June 30, 2018</u>				
Foreign exchange contracts	Sell	USD/NTD	2018.07.06-2018.07.13	USD 218,048
Foreign exchange contracts	Sell	JPY/USD	2018.07.06-2018.08.08	JPY 2,800,000
Foreign exchange contracts	Sell	GBP/USD	2018.07.13-2018.08.29	GBP 4,000
Foreign exchange contracts	Sell	AUD/USD	2018.07.06	AUD 1,000
Foreign exchange contracts	Sell	CAD/USD	2018.07.13	CAD 6,000
Foreign exchange contracts	Sell	RMB/USD	2018.07.06-2018.08.10	RMB 367,200
Foreign exchange contracts	Buy	RMB/USD	2018.07.06-2018.08.29	RMB 1,229,168
Foreign exchange contracts	Buy	USD/NTD	2018.07.06-2018.08.29	USD 654,500
Foreign exchange contracts	Buy	JPY/USD	2018.07.18-2018.07.27	JPY 2,418,335
Foreign exchange contracts	Buy	EUR/USD	2018.07.06-2018.07.27	EUR 34,000

(Continued)

	<b>Buy/Sell</b>	<b>Currency</b>	<b>Maturity Date</b>	<b>Notional Amount (In Thousands)</b>	
Foreign exchange contracts	Buy	AUD/USD	2018.07.06-2018.07.25	AUD	9,000
Foreign exchange contracts	Buy	GBP/USD	2018.07.06-2018.08.10	GBP	9,000

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

June 30, 2017

Forward exchange contracts	Sell	USD/NTD	2017.07.07-2017.09.08	USD	250,000
Forward exchange contracts	Sell	JPY/USD	2017.07.07-2017.08.30	JPY	4,600,000
Forward exchange contracts	Sell	GBP/USD	2017.07.28	GBP	6,000
Forward exchange contracts	Sell	CAD/USD	2017.07.07	CAD	3,000
Forward exchange contracts	Buy	RMB/USD	2017.07.14-2017.08.23	RMB	770,940
Forward exchange contracts	Buy	USD/NTD	2017.07.12-2017.08.11	USD	562,000
Forward exchange contracts	Buy	SGD/USD	2017.07.14-2017.08.23	SGD	252,579

(Concluded)

## 8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING - 2017

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
<u>Derivative financial liabilities under hedge accounting</u>		
Cash flow hedges - foreign exchange forward contracts	\$ _____ -	\$ <u>8,130</u>

The Company's foreign-currency denominated cash flows derived from highly probable forecasted transactions may lead to risks on foreign-currency denominated 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 contracts at the end of the reporting period are as follows:

	Buy/Sell	Currency	Settlement Period/Date	Notional Amount (In Thousands)
<u>June 30, 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 forecasted 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 June 30, 2017	For the Six Months Ended June 30, 2017
Revenue	\$ -	\$ -
Other gains and losses	<u>2,766</u>	<u>3,538</u>
	<u>\$ 2,766</u>	<u>\$ 3,538</u>

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

### Investments in Equity Instruments at FVTOCI

	June 30, 2018
Domestic investments	
Listed shares and emerging market shares	\$ 97,943
Unlisted shares	<u>559,497</u>
	<u>657,440</u>
Foreign investments	
Listed shares	442,106
Unlisted shares	1,389,484
Unlisted beneficiary certificate	<u>723,612</u>
	<u>2,555,202</u>
	<u>\$ 3,212,642</u>
Current	\$ 442,106
Non-current	<u>2,770,536</u>
	<u>\$ 3,212,642</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 Notes 3 and Note 10 for information relating to their reclassification and comparative information for 2017.

#### 10. FINANCIAL ASSETS MEASURED AT COST - 2017

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Domestic unlisted equity investments	\$ 626,281	\$ 643,961
Overseas unlisted equity investments	1,779,994	1,858,322
Overseas unlisted beneficiary certificates	649,223	677,912
Derivative financial instruments - convertible bonds	116,226	88,862
Derivative financial instruments - overseas warrants	<u>15,516</u>	<u>14,303</u>
	<u>\$ 3,187,240</u>	<u>\$ 3,283,360</u>
Classified according to financial asset measurement categories		
Financial assets at fair value through profit or loss		
Available-for-sale financial assets	\$ 131,742	\$ 103,165
	<u>3,055,498</u>	<u>3,180,195</u>
	<u>\$ 3,187,240</u>	<u>\$ 3,283,360</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 since the range of reasonable fair value estimates was significant; therefore, they were measured at cost less impairment, if any, at the end of the reporting period

#### 11. OTHER CURRENT FINANCIAL ASSETS

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Time deposits with original maturities of more than three months	<u>\$ 16,874,530</u>	<u>\$ 7,988,363</u>	<u>\$ 5,910,547</u>
Current	\$ 16,722,067	\$ 7,988,363	\$ 5,910,547
Non-current	<u>152,463</u>	<u>-</u>	<u>-</u>
	<u>\$ 16,874,530</u>	<u>\$ 7,988,363</u>	<u>\$ 5,910,547</u>

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

## 12. TRADE RECEIVABLES AND OTHER RECEIVABLES

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Trade and overdue receivables</u>			
At amortized cost			
Trade receivables	\$ 4,035,596	\$ 9,023,748	\$ 11,462,027
Trade receivables - related parties	277	22,400	20
Overdue receivables	1,840,947	1,840,947	1,840,947
Less: Allowances for impairment loss	(509,052)	(509,052)	(509,052)
Less: Allowances for impairment loss - overdue receivables	<u>(1,840,947)</u>	<u>(1,840,947)</u>	<u>(1,840,947)</u>
	<u>\$ 3,526,821</u>	<u>\$ 8,537,096</u>	<u>\$ 10,952,995</u>
Current	\$ 3,526,821	\$ 8,537,096	\$ 10,952,995
Non-current	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,526,821</u>	<u>\$ 8,537,096</u>	<u>\$ 10,952,995</u>
<u>Other receivables</u>			
Receivables from the disposal of investments	\$ 1,317,844	\$ 1,326,104	\$ 1,291,353
Interest receivables	272,069	248,786	268,691
VAT refund receivables	56,863	38,350	63,850
Others	151,328	41,799	70,969
Less: Allowances for impairment loss	<u>(1,541,878)</u>	<u>(1,551,542)</u>	<u>(1,510,883)</u>
	<u>\$ 256,226</u>	<u>\$ 103,497</u>	<u>\$ 183,980</u>
Current	\$ 256,226	\$ 103,497	\$ 183,980
Non-current	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 256,226</u>	<u>\$ 103,497</u>	<u>\$ 183,980</u>

### a. Trade receivables at amortized cost

#### For the six months ended June 30, 2018

The average credit period of the sale 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 allowing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss allowances for all trade receivables. The expected credit losses on trade receivables are estimated using an allowance matrix with reference to past default experiences 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 forecasted 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 allowance matrix.

June 30, 2018

	<b>Non Past Due</b>	<b>1-90 Days</b>	<b>91-180 Days</b>	<b>Over 181 Days</b>	<b>Total</b>
Expected credit loss rate	0%	20.27%	81.64%	100%	-
Gross carrying amount	\$ 3,294,056	\$ 258,597	\$ 142,036	\$ 341,184	\$ 4,035,873
Loss allowance (Lifetime ECL)	<u>-</u>	<u>(51,903)</u>	<u>(115,965)</u>	<u>(341,184)</u>	<u>(509,052)</u>
Amortized cost	<u>\$ 3,294,056</u>	<u>\$ 206,694</u>	<u>\$ 26,071</u>	<u>\$ -</u>	<u>\$ 3,526,821</u>

There was no difference in the allowance for impairment loss on June 30, 2018 compared to January 1, 2018.

For the six months ended June 30, 2017

The Company applied the same credit policy in 2018 and 2017. The credit period on the sale 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 the 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 Finance and Accounting evaluates the potential customer's credit quality and defines credit limits and scorings by customer. The factor of overdue receivables 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 a 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 were recognized as long-term receivables.

Aging of trade receivables

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
1-90 days	\$ 244,443	\$ 393,889
91-180 days	63,613	77,507
Over 181 days	<u>340,280</u>	<u>262,757</u>
	<u>\$ 648,336</u>	<u>\$ 734,153</u>

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

Aging of impaired trade receivables

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
1-90 days	\$ 139,284	\$ 225,101
91-180 days	-	-
Over 181 days	<u>-</u>	<u>-</u>
	<u>\$ 139,284</u>	<u>\$ 225,101</u>

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

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

	<b>For the Six Months Ended June 30, 2017</b>
Balance, beginning of period	\$ 2,712,869
Less: Impairment loss reversed	<u>(362,870)</u>
Balance at June 30, 2017	<u>\$ 2,349,999</u>

b. Other receivables

Receivables from the disposal of investments are derived from the sale of shares of Saffron Media Group Ltd. in 2013. According to the agreement, the principal 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 are as follows:

	<b>For the Six Months Ended June 30, 2018</b>
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>(9,664)</u>
Balance at June 30, 2018	<u>\$ 1,541,878</u>

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

	<b>For the Six Months Ended June 30, 2017</b>
Balance, beginning of period	\$ 1,475,130
Foreign exchange gains and losses	<u>35,753</u>
Balance at June 30, 2017	<u>\$ 1,510,883</u>

### 13. INVENTORIES

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Finished goods	\$ 1,187,595	\$ 1,602,962	\$ 3,473,246
Work-in-process	41,077	124,318	888,363
Semi-finished goods	806,149	1,094,183	2,204,743
Raw materials	2,842,653	4,403,010	8,132,352
Inventory in transit	<u>129,149</u>	<u>156,953</u>	<u>256,471</u>
	<u>\$ 5,006,623</u>	<u>\$ 7,381,426</u>	<u>\$ 14,955,175</u>

The cost of inventories recognized as operating costs for the six months ended June 30, 2018 and 2017 were NT\$590,490 thousand and NT\$2,238,027 thousand, respectively.

### 14. PREPAYMENTS

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Royalties	\$ 2,426,681	\$ 2,633,750	\$ 2,880,018
Net input VAT	558,307	480,516	530,877
Prepayments to suppliers	45,434	9,422	9,795
Prepaid equipment	32,916	52,744	52,167
Others	<u>567,965</u>	<u>800,287</u>	<u>565,116</u>
	<u>\$ 3,631,303</u>	<u>\$ 3,976,719</u>	<u>\$ 4,037,973</u>

(Continued)

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Current	\$ 1,444,846	\$ 1,742,986	\$ 1,589,180
Non-current	<u>2,186,457</u>	<u>2,233,733</u>	<u>2,448,793</u>
	<u>\$ 3,631,303</u>	<u>\$ 3,976,719</u>	<u>\$ 4,037,973</u> (Concluded)

Prepayments for royalties were primarily for the procurement of royalty rights and were classified as current or non-current in accordance with their nature. For details of content of contracts, please refer to Note 41.

## 15. NON-CURRENT ASSETS HELD FOR SALE

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Land and buildings held for sale	<u>\$ -</u>	<u>\$ 1,647,763</u>	<u>\$ 1,592,749</u>

On March 15, 2017, HTC' Board of Directors passed a resolution to sell land and factories in Shanghai to Shanghai Xingbao Information Technology Co., Ltd. in the amount of RMB630,000 thousand. The trading amount of RMB315,000 thousand has been collected and recognized as advance receipts. The transfer process was completed in April 2018. The amount of net gains for the disposal of non-current assets held for sale was NT\$1,077,246 thousand, please refer to Note 27 for the details.

## 16. SUBSIDIARIES

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

The consolidated entities as of June 30, 2018, December 31, 2017 and June 30, 2017 are as follows:

Investor	Investee	Main Businesses	% of Ownership			Remark
			June 30, 2018	December 31, 2017	June 30, 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	5)
	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)

(Continued)

Investor	Investee	Main Businesses	% of Ownership			Remark
			June 30, 2018	December 31, 2017	June 30, 2017	
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	-
	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	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	5)
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 Netherlands B.V.	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	1.00	1.00	1.00	-
	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	-	

(Continued)

Investor	Investee	Main Businesses	% of Ownership			Remark
			June 30, 2018	December 31, 2017	June 30, 2017	
HTC Netherlands B.V.	HTC Communication Solutions Mexico, S.A DE C.V.	Marketing, repair and after-sales services	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	-
	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	100.00	-
HTC VIVE TECH (HK) Limited	HTC VIVE TECH (UK) Limited	Research, development and sale of virtual reality devices	100.00	100.00	100.00	-
	HTC VIVE TECH (Beijing)	"	100.00	100.00	100.00	-
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	100.00	-
	DeepQ Technology (Beijing)	Development and marketing of softwares technology	100.00	-	-	4)
HTC Investment (BVI) Corporation	VRChat, Inc.	Development of virtual reality contents	51.26	53.16	-	3)
VRChat, Inc.	VRChat Ca. Development Inc.	Development of virtual reality contents	100.00	100.00	-	3)
HTC VR Content (BVI) Corp.	Uomo Vitruviano Corp.	Development of virtual reality contents	100.00	100.00	-	2)

(Concluded)

**Remark:**

- 1) The Company disposed of 100% of their 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) In August 2017, VRChat, Inc. and its subsidiary were included in the consolidated financial statements as the Company acquired 53.16% equity interest in them. For details of the acquisition, please refer to Note 30.
  - 4) DeepQ Technology (Beijing) was incorporated in March 2018.
  - 5) Both the dissolution of HTC Investment Corporation and Yoda Co., Ltd. were approved in their shareholders' meeting held in November 2017 and the date of dissolution was set on November 30, 2017. Both liquidation processes had been completed on April 30, 2018.
- b. Subsidiaries excluded from the consolidated financial statements: None.
- c. Details of subsidiaries that have material non-controlling interests: None.

## 17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	June 30, 2018	December 31, 2017	June 30, 2017
Investment in associates	\$ 397,903	\$ 413,120	\$ 445,205

### Investments in Associates - Associates That Are Not Individually Material

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Unlisted equity investments</u>			
East West Artists, LLC	\$ 25,840	\$ 26,834	\$ 29,163
Steel Wool Games, Inc.	91,558	99,921	117,598
Surgical Theater, LLC	273,597	274,864	291,214
Gui Zhou Wei Ai Educational Technology Co., Ltd.	<u>6,908</u>	<u>11,501</u>	<u>7,230</u>
	<u>\$ 397,903</u>	<u>\$ 413,120</u>	<u>\$ 445,205</u>

At the end of the reporting periods, the percentages of ownership and voting rights in associates held by the Company are as follows:

Name of Associate	June 30, 2018	December 31, 2017	June 30, 2017
East West Artists, LLC	30.00%	30.00%	30.00%
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:

	<u>For the Three Months Ended June 30</u>		<u>For the Six Months Ended June 30</u>	
	2018	2017	2018	2017
The Company's share of:				
Loss from continuing operations	\$ (10,157)	\$ (28,804)	\$ (23,496)	\$ (63,196)
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive loss for the period	<u>\$ (10,157)</u>	<u>\$ (28,804)</u>	<u>\$ (23,496)</u>	<u>\$ (63,196)</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 of accounting or the calculation of the share of profit or loss and other comprehensive income, as the investees' financial statements have not been reviewed.

## 18. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2018	December 31, 2017	June 30, 2017
Carrying amounts			
Land	\$ 4,676,054	\$ 4,676,726	\$ 4,674,758
Buildings	3,037,167	5,260,727	5,352,700
Machinery and equipment	397,279	417,379	999,809
Other equipment	<u>393,233</u>	<u>443,781</u>	<u>522,854</u>
	<u>\$ 8,503,733</u>	<u>\$ 10,798,613</u>	<u>\$ 11,550,121</u>

Movement of property, plant and equipment for the six months ended June 30, 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	-	45,816	188,925	53,625	288,366
Disposals	-	(48,259)	(2,053,268)	(128,833)	(2,230,360)
Reclassified as non-current assets held for sale	-	-	(2,619)	-	(2,619)
Reclassified as investment properties	-	(2,805,786)	-	-	(2,805,786)
Disposal of subsidiary	-	-	(824,206)	(48,758)	(872,964)
Effect of foreign currency exchange differences	<u>(672)</u>	<u>(2,556)</u>	<u>11,370</u>	<u>9,159</u>	<u>17,301</u>
Balance, end of period	<u>4,676,054</u>	<u>4,572,247</u>	<u>10,222,010</u>	<u>2,104,536</u>	<u>21,574,847</u>
<u>Accumulated depreciation</u>					
Balance, beginning of period	-	2,122,305	11,640,682	1,757,876	15,520,863
Depreciation expenses	-	97,338	64,294	72,978	234,610
Disposals	-	(37,376)	(1,981,548)	(118,873)	(2,137,797)
Reclassified as non-current assets held for sale	-	-	(1,885)	-	(1,885)
Reclassified as investment properties	-	(646,766)	-	-	(646,766)
Disposal of subsidiary	-	-	(750,842)	(16,952)	(767,794)
Effect of foreign currency exchange differences	<u>-</u>	<u>(421)</u>	<u>9,654</u>	<u>6,893</u>	<u>16,126</u>
Balance, end of period	<u>-</u>	<u>1,535,080</u>	<u>8,980,355</u>	<u>1,701,922</u>	<u>12,217,357</u>
<u>Accumulated impairment</u>					
Balance, beginning of period	-	-	843,747	17,686	861,433
Disposals	-	-	-	(8,423)	(8,423)
Effect of foreign currency exchange differences	<u>-</u>	<u>-</u>	<u>629</u>	<u>118</u>	<u>747</u>
Balance, end of period	<u>-</u>	<u>-</u>	<u>844,376</u>	<u>9,381</u>	<u>853,757</u>
Net book value, end of period	<u>\$ 4,676,054</u>	<u>\$ 3,037,167</u>	<u>\$ 397,279</u>	<u>\$ 393,233</u>	<u>\$ 8,503,733</u>

	<b>2017</b>				
	<b>Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Cost</u>					
Balance, beginning of period	\$ 4,674,792	\$ 7,321,116	\$ 13,614,889	\$ 2,301,452	\$ 27,912,249
Additions	-	15,770	50,039	30,977	96,786
Disposals	-	-	(154,983)	(25,212)	(180,195)
Reclassification	-	-	(39,865)	-	(39,865)
Effect of foreign currency exchange differences	(34)	(80)	(82,500)	(34,987)	(117,601)
Balance, end of period	<u>4,674,758</u>	<u>7,336,806</u>	<u>13,387,580</u>	<u>2,272,230</u>	<u>27,671,374</u>
<u>Accumulated depreciation</u>					
Balance, beginning of period	-	1,847,304	11,816,261	1,686,963	15,350,528
Depreciation expenses	-	136,701	289,582	99,695	525,978
Disposals	-	-	(151,603)	(21,494)	(173,097)
Reclassification	-	-	(21,013)	-	(21,013)
Effect of foreign currency exchange differences	-	101	(68,163)	(21,166)	(89,228)
Balance, end of period	<u>-</u>	<u>1,984,106</u>	<u>11,865,064</u>	<u>1,743,998</u>	<u>15,593,168</u>
<u>Accumulated impairment</u>					
Balance, beginning of period	-	-	530,786	5,439	536,225
Impairment losses	-	-	-	-	-
Reclassification	-	-	(7,868)	-	(7,868)
Effect of foreign currency exchange differences	-	-	(211)	(61)	(272)
Balance, end of period	<u>-</u>	<u>-</u>	<u>522,707</u>	<u>5,378</u>	<u>528,085</u>
Net book value, end of period	<u>\$ 4,674,758</u>	<u>\$ 5,352,700</u>	<u>\$ 999,809</u>	<u>\$ 522,854</u>	<u>\$ 11,550,121</u>

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 their correspondence with the principal of investment properties. For the detail, please refer to Note 19.

There were no capitalized interests for the six months ended June 30, 2018 and 2017.

## 19. INVESTMENT PROPERTIES, NET

Movement of investment properties, net for the six months ended June 30, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
<u>Cost</u>		
Balance, beginning of period	\$ -	\$ 1,829,827
Eliminations	-	(1,504)
Reclassification	2,805,786	(1,791,715)
Effect of foreign currency exchange differences	-	(36,608)
Balance, end of period	<u>2,805,786</u>	<u>-</u>
<u>Accumulated depreciation</u>		
Balance, beginning of period	-	302,826
Depreciation expense	41,422	5,936
Eliminations	-	(1,504)
Reclassification	646,766	(301,200)
Effect of foreign currency exchange differences	-	(6,058)
Balance, end of period	<u>688,188</u>	<u>-</u>
Net book value, end of period	<u>\$ 2,117,598</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 resolution to dispose of the investment properties was approved in March 2017 and the assets were reclassified to non-current assets held for sale. The transfer process had been completed in April 2018, please refer to Note 15 for the details.

The determination of fair value for the investment properties leased in February 2018 was performed by independent qualified professional appraisers, and the fair value was measured using Level 3 inputs. The fair value is assessed as having no material impact compared to December 31, 2017 and June 30, 2018. The valuation was arrived at with reference to market evidence of transaction prices for similar properties. The fair values as of June 30, 2018 and December 31, 2017 are as follows:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Fair value	<u>\$ 2,467,267</u>	<u>\$ 2,467,267</u>



## 20. INTANGIBLE ASSETS

	June 30, 2018	December 31, 2017	June 30, 2017
Carrying amounts			
Patents	\$ 1,626,785	\$ 2,154,987	\$ 2,770,664
Goodwill	68,422	67,025	-
Other intangible assets	<u>56,573</u>	<u>93,429</u>	<u>209,566</u>
	<u>\$ 1,751,780</u>	<u>\$ 2,315,441</u>	<u>\$ 2,980,230</u>

Movements of intangible assets for the six months ended June 30, 2018 and 2017 are as follows:

	<b>2018</b>			
	<b>Patents</b>	<b>Goodwill</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<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>196,050</u>	<u>11,733</u>	<u>11,243</u>	<u>219,026</u>
Balance, end of period	<u>11,664,040</u>	<u>724,983</u>	<u>1,764,863</u>	<u>14,153,886</u>
<u>Accumulated amortization</u>				
Balance, beginning of period	9,201,918	-	1,497,864	10,699,782
Amortization expenses	557,320	-	37,028	594,348
Effect of foreign currency exchange differences	<u>166,932</u>	<u>-</u>	<u>7,516</u>	<u>174,448</u>
Balance, end of period	<u>9,926,170</u>	<u>-</u>	<u>1,542,408</u>	<u>11,468,578</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>10,336</u>	<u>3,555</u>	<u>13,891</u>
Balance, end of period	<u>111,085</u>	<u>656,561</u>	<u>165,882</u>	<u>933,528</u>
Net book value, end of period	<u>\$ 1,626,785</u>	<u>\$ 68,422</u>	<u>\$ 56,573</u>	<u>\$ 1,751,780</u>
	<b>2017</b>			
	<b>Patents</b>	<b>Goodwill</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<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>(551,250)</u>	<u>(29,064)</u>	<u>(33,016)</u>	<u>(613,330)</u>
Balance, end of period	<u>11,645,890</u>	<u>655,604</u>	<u>1,800,045</u>	<u>14,101,539</u>

(Continued)

	<b>2017</b>			
	<b>Patents</b>	<b>Goodwill</b>	<b>Other Intangible Assets</b>	<b>Total</b>
<u>Accumulated amortization</u>				
Balance, beginning of period	\$ 8,538,904	\$ -	\$ 1,333,403	\$ 9,872,307
Amortization expenses	580,203	-	120,459	700,662
Eliminations	-	-	(7,093)	(7,093)
Effect of foreign currency exchange differences	<u>(354,966)</u>	<u>-</u>	<u>(21,840)</u>	<u>(376,806)</u>
Balance, end of period	<u>8,764,141</u>	<u>-</u>	<u>1,424,929</u>	<u>10,189,070</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>(29,064)</u>	<u>(9,996)</u>	<u>(39,060)</u>
Balance, end of period	<u>111,085</u>	<u>655,604</u>	<u>165,550</u>	<u>932,239</u>
Net book value, end of period	<u>\$ 2,770,664</u>	<u>\$ -</u>	<u>\$ 209,566</u>	<u>\$ 2,980,230</u> (Concluded)

The Company owns patents of graphics technologies. As of June 30, 2018, December 31, 2017 and June 30, 2017, the carrying amounts of such patents were NT\$1,619,914 thousand, NT\$2,144,678 thousand and NT\$2,757,900 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

## 21. SHORT-TERM BORROWINGS

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
<u>Unsecured borrowings</u>			
Line of credit borrowings	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,550,000</u>

As of June 30, 2017, the range of interest rates was 0.95%-1.20% per annum.

## 22. NOTE AND TRADE PAYABLES

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Notes payable	\$ 3,542	\$ 27	\$ 612
Trade payables	11,577,715	14,568,235	17,797,698
Trade payables - related parties	<u>3,074</u>	<u>960</u>	<u>978</u>
	<u>\$ 11,584,331</u>	<u>\$ 14,569,222</u>	<u>\$ 17,799,288</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 obligations adjusted by periodical negotiation with suppliers, the payables were recognized as an adjustment to operating costs or expenses by their nature.

### 23. OTHER LIABILITIES

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Other payables</u>			
Accrued expenses	\$ 10,353,049	\$ 11,624,987	\$ 12,062,191
Payables for purchase of equipment	<u>42,062</u>	<u>56,903</u>	<u>71,100</u>
	<u>\$ 10,395,111</u>	<u>\$ 11,681,890</u>	<u>\$ 12,133,291</u>
<u>Other liabilities</u>			
Advance receipts	\$ 837,961	\$ 2,480,454	\$ 3,364,995
Agency receipts	76,213	132,387	146,687
Others	<u>453,294</u>	<u>237,872</u>	<u>122,489</u>
	<u>\$ 1,367,468</u>	<u>\$ 2,850,713</u>	<u>\$ 3,634,171</u>
Current	\$ 1,367,468	\$ 2,850,713	\$ 3,520,051
Non-current	<u>-</u>	<u>-</u>	<u>114,120</u>
	<u>\$ 1,367,468</u>	<u>\$ 2,850,713</u>	<u>\$ 3,634,171</u>

#### Accrued Expenses

	June 30, 2018	December 31, 2017	June 30, 2017
Marketing	\$ 4,837,010	\$ 5,964,240	\$ 6,704,655
Salaries, bonuses and compensation	2,210,457	2,004,912	1,597,278
Materials and molding expenses	1,192,893	1,796,104	1,823,015
Services	1,076,179	766,310	863,554
Import, export and freight	147,271	181,885	229,968
Insurance	98,019	111,477	115,855
Repairs, maintenance and sundry purchase	71,809	76,785	99,008
Others	<u>719,411</u>	<u>723,274</u>	<u>628,858</u>
	<u>\$ 10,353,049</u>	<u>\$ 11,624,987</u>	<u>\$ 12,062,191</u>

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

## 24. PROVISIONS

	June 30, 2018	December 31, 2017	June 30, 2017
Warranties	\$ 2,502,886	\$ 2,795,933	\$ 2,770,408
Provisions for contingent loss on purchase orders	<u>194,383</u>	<u>581,268</u>	<u>238,191</u>
	<u>\$ 2,697,269</u>	<u>\$ 3,377,201</u>	<u>\$ 3,008,599</u>

Movement of provisions for the six months ended June 30, 2018 and 2017 are as follows:

	<b>2018</b>		
	<b>Provisions for Contingent Loss on Purchase Orders</b>		
	<b>Warranty Provision</b>		<b>Total</b>
Balance, beginning of period	\$ 2,795,933	\$ 581,268	\$ 3,377,201
Provisions recognized (reversed)	673,301	(310,510)	362,791
Usage	(969,290)	(76,375)	(1,045,665)
Effect of foreign currency exchange differences	<u>2,942</u>	<u>-</u>	<u>2,942</u>
Balance, end of period	<u>\$ 2,502,886</u>	<u>\$ 194,383</u>	<u>\$ 2,697,269</u>
	<b>2017</b>		
	<b>Provisions for Contingent Loss on Purchase Orders</b>		
	<b>Warranty Provision</b>		<b>Total</b>
Balance, beginning of period	\$ 3,010,969	\$ 373,342	\$ 3,384,311
Provisions recognized (reversed)	1,392,287	(106,164)	1,286,123
Usage	(1,618,406)	(28,987)	(1,647,393)
Effect of foreign currency exchange differences	<u>(14,442)</u>	<u>-</u>	<u>(14,442)</u>
Balance, end of period	<u>\$ 2,770,408</u>	<u>\$ 238,191</u>	<u>\$ 3,008,599</u>

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

The provisions 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

	June 30, 2018	December 31, 2017	June 30, 2017
Numbers of shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Value of 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>819,262</u>	<u>820,826</u>	<u>821,795</u>
Value of shares issued	<u>\$ 8,192,617</u>	<u>\$ 8,208,261</u>	<u>\$ 8,217,952</u>

In March and May 2017, HTC retired 105 thousand and 109 thousand restricted shares for employees, totaling NT\$1,045 thousand and NT\$1,090 thousand, respectively. As a result, HTC's issued and outstanding ordinary shares as of June 30, 2017 decreased to NT\$8,217,952 thousand, divided into 821,795 thousand ordinary shares at a par value of NT\$10. Every ordinary share carries one vote per share and a right to dividends.

In March and May 2018, HTC retired 16 thousand and 1,697 thousand restricted shares for employees, totaling NT\$162 thousand and NT\$16,972 thousand, respectively. In January and February 2018, the employee share options have been exercised by the issuance of 129 thousand and 20 thousand shares amounting to NT\$1,290 thousand and NT\$200 thousand, respectively. As a result, HTC's issued and outstanding common shares as of June 30, 2018 decreased to NT\$8,192,617 thousand, divided into 819,262 thousand ordinary shares at a par value of NT\$10. Every ordinary share carries one vote per share and a right to dividends.

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

#### b. Global depositary receipts

In November 2003, HTC issued 14,400 thousand ordinary shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, HTC's shareholders, including Via Technologies Inc., also issued 12,878.4 thousand ordinary shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of share 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 June 30, 2018, there were 5,521 thousand units of GDRs redeemed, representing 22,083 thousand ordinary shares, and the outstanding GDRs represented 13,977 thousand ordinary shares or 1.71% of HTC's outstanding ordinary shares.

### Capital Surplus

	June 30, 2018	December 31, 2017	June 30, 2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital			
Arising from the issuance of ordinary shares	\$ 14,669,455	\$ 14,659,563	\$ 14,121,223
Arising from consolidation excess	23,288	23,288	23,288

(Continued)

	June 30, 2018	December 31, 2017	June 30, 2017
Arising from expired share options	\$ 455,021	\$ 186,052	\$ 136,759
<u>May not be used for any purpose</u>			
Arising from employee share options	301,742	572,369	614,548
Arising from employee restricted shares	<u>126,292</u>	<u>110,219</u>	<u>742,692</u>
	<u>\$ 15,575,798</u>	<u>\$ 15,551,491</u>	<u>\$ 15,638,510</u> (Concluded)

The capital surplus arising from shares issued in excess of par (including share premiums from the issuance of ordinary shares, treasury share transactions, consolidation excess and expired share 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% as 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 share 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 employees' compensation and remuneration to directors and supervisors and the actual appropriations, refer to the employees' compensation and remuneration of directors and supervisors section in Note 27.

Appropriation of earnings to a legal reserve shall be made until the legal reserve equals 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 and 2016 had been resolved in the shareholders' meeting on June 26, 2018 and June 15, 2017, respectively.

Information on the appropriation of earnings proposed by 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 (the New Taiwan dollar) 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 operations.

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 the fair value of hedging instruments entered into for cash flow hedges. The cumulative gains or losses arising on changes in the 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 shareholders' meetings held on June 2, 2015 and June 19, 2014, the shareholders approved a restricted share plan for employees. Refer to Note 33 for the information of restricted shares issued.

	<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
Balance, beginning of period	\$ (49,590)	\$ (253,922)
Share-based payment expenses recognized	<u>17,329</u>	<u>83,484</u>
Balance, end of period	<u>\$ (32,261)</u>	<u>\$ (170,438)</u>

**26. OPERATING REVENUE**

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Sale of goods	\$ 6,647,406	\$ 15,866,795	\$ 15,178,260	\$ 30,134,233
Other operating income	<u>127,054</u>	<u>269,114</u>	<u>384,943</u>	<u>532,499</u>
	<u>\$ 6,774,460</u>	<u>\$ 16,135,909</u>	<u>\$ 15,563,203</u>	<u>\$ 30,666,732</u>

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

a. Other income

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Interest income				
Bank deposits	\$ 154,715	\$ 67,599	\$ 311,223	\$ 128,627
Others	<u>111</u>	<u>8,190</u>	<u>320</u>	<u>22,343</u>
	154,826	75,789	311,543	150,970
Rental income	115,953	2,578	196,430	5,031
Dividends	-	8,442	-	15,862
Others	<u>31,793</u>	<u>43,768</u>	<u>79,410</u>	<u>230,903</u>
	<u>\$ 302,572</u>	<u>\$ 130,577</u>	<u>\$ 587,383</u>	<u>\$ 402,766</u>



b. Other gains and losses

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net gain on disposal of assets and licensing income	\$ -	\$ -	\$ 31,285,385	\$ -
Net gain on disposal of non-current assets held for sale (Note 15)	1,077,246	-	1,077,246	-
Net loss on the disposal of property, plant and equipment	(2,219)	(4,801)	(2,491)	(4,930)
Net gain on disposal of subsidiary (Note 31)	-	-	15,396	-
Net gain on disposal of investment	-	24,305	-	24,305
Net foreign exchange (loss) gain	(137,526)	(6,614)	(72,139)	81,358
Net gain arising from financial instruments classified as held for trading	-	130,701	-	130,701
Net gain on valuation of financial instruments at fair value	207,635	-	207,635	-
Ineffective portion of cash flow hedge (Note 8)	-	2,766	-	3,538
Other loss	<u>(70,572)</u>	<u>(2,030)</u>	<u>(409,315)</u>	<u>(9,114)</u>
	<u>\$ 1,074,564</u>	<u>\$ 144,327</u>	<u>\$ 32,101,717</u>	<u>\$ 225,858</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 a certain part of the Company’s intellectual properties. The aforementioned transaction was completed on January 30, 2018, and resulted in a net gain of NT\$31,300,655 thousand, which was comprised of and recorded as a net gain of NT\$31,285,385 on the disposal of assets and licensing fee income, a net gain of NT\$15,396 thousand on the disposal of a subsidiary and a net loss of NT\$126 thousand on the disposal of property and equipment.

c. Impairment reversal gain on financial assets

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Trade receivables	<u>\$ -</u>	<u>\$ (362,870)</u>	<u>\$ -</u>	<u>\$ (362,870)</u>

d. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Property, plant and equipment	\$ 114,394	\$ 256,151	\$ 234,610	\$ 525,978
Investment properties	24,903	-	41,422	5,936
Intangible assets	<u>290,760</u>	<u>345,292</u>	<u>594,348</u>	<u>700,662</u>
	<u>\$ 430,057</u>	<u>\$ 601,443</u>	<u>\$ 870,380</u>	<u>\$ 1,232,576</u>
An analysis of depreciation - by function				
Operating costs	\$ 20,674	\$ 72,827	\$ 46,131	\$ 146,583
Operating expenses	93,720	183,324	188,479	379,395
Other expenses	<u>24,903</u>	<u>-</u>	<u>41,422</u>	<u>5,936</u>
	<u>\$ 139,297</u>	<u>\$ 256,151</u>	<u>\$ 276,032</u>	<u>\$ 531,914</u>
An analysis of amortization - by function				
Operating costs	\$ -	\$ 564	\$ -	\$ 1,253
Operating expenses	<u>290,760</u>	<u>344,728</u>	<u>594,348</u>	<u>699,409</u>
	<u>\$ 290,760</u>	<u>\$ 345,292</u>	<u>\$ 594,348</u>	<u>\$ 700,662</u>

e. Employee benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Short-term benefits	<u>\$ 1,881,607</u>	<u>\$ 2,766,260</u>	<u>\$ 4,872,437</u>	<u>\$ 5,613,717</u>
Post-employment benefits				
Defined contribution plans	75,286	105,402	161,327	214,638
Defined benefit plans	<u>2,766</u>	<u>1,817</u>	<u>5,532</u>	<u>3,631</u>
	<u>78,052</u>	<u>107,219</u>	<u>166,859</u>	<u>218,269</u>
Share-based payments (Note 33)				
Equity-settled share-based payments	<u>8,984</u>	<u>52,900</u>	<u>17,871</u>	<u>105,218</u>
Separation benefits	<u>24,223</u>	<u>-</u>	<u>299,343</u>	<u>-</u>
	<u>33,207</u>	<u>52,900</u>	<u>317,214</u>	<u>105,218</u>
Total employee benefits expense	<u>\$ 1,992,866</u>	<u>\$ 2,926,379</u>	<u>\$ 5,356,510</u>	<u>\$ 5,937,204</u>
An analysis of employee benefits expense - by function				
Operating costs	\$ 621,807	\$ 567,715	\$ 992,003	\$ 1,251,809
Operating expenses	1,346,836	2,358,664	4,065,164	4,685,395
Other expenses	<u>24,223</u>	<u>-</u>	<u>299,343</u>	<u>-</u>
	<u>\$ 1,992,866</u>	<u>\$ 2,926,379</u>	<u>\$ 5,356,510</u>	<u>\$ 5,937,204</u>

f. Employees' compensation and remuneration of directors and supervisors

In compliance with HTC's Articles of Incorporation, the amendments stipulate the distribution of employees' compensation and remuneration to directors and supervisors at 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. For the six months ended June 30, 2018 and 2017, the accrual rates and amount of employees' compensation are as follows:

Accrual rate

	<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
Employees' compensation	4%	4%

Amount

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Employees' compensation	\$ (95,278)	\$ _____ -	\$ 753,954	\$ _____ -

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 further information on the employees' compensation and remuneration to directors and supervisors approved in the meeting of the Board of Directors in 2018 and 2017, refer to disclosures in the Market Observation Post System website of the Taiwan Stock Exchange.

g. Impairment loss

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Inventories (included in operating costs)	\$ 505,304	\$ 852,107	\$ 590,490	\$ 2,238,027

h. Gain or loss on foreign currency exchange

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Foreign exchange gains	\$ 489,365	\$ 1,680,084	\$ 1,371,275	\$ 3,865,921
Foreign exchange losses	(626,891)	(1,686,698)	(1,443,414)	(3,784,563)
Valuation gain arising from financial instruments classified as held for trading	-	130,701	-	130,701

(Continued)

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Valuation gain arising from financial instruments at fair value	\$ 207,635	\$ -	\$ 207,635	\$ -
Ineffective portion of cash flow hedges	<u>-</u>	<u>2,766</u>	<u>-</u>	<u>3,538</u>
	<u>\$ 70,109</u>	<u>\$ 126,853</u>	<u>\$ 135,496</u>	<u>\$ 215,597</u> (Concluded)

## 28. INCOME TAXES RELATING TO CONTINUING OPERATIONS

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

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Current tax				
In respect of the current period	\$ 144,000	\$ 39,452	\$ 170,161	\$ 87,367
Land value increment tax	84,027	-	84,027	-
Adjustments for prior periods	<u>-</u>	<u>(60,000)</u>	<u>-</u>	<u>(60,000)</u>
	228,027	(20,548)	254,188	27,367
Deferred tax				
In respect of the current period	<u>(212,407)</u>	<u>11,084</u>	<u>5,066,648</u>	<u>(45,026)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 15,620</u>	<u>\$ (9,464)</u>	<u>\$5,320,836</u>	<u>\$ (17,659)</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 returns and applied for a re-examination. Nevertheless, to be conservative, HTC had accrued for the income tax assessed by the tax authorities.

HTC Investment Corporation's tax returns through 2016 have been examined and approved by the tax authorities.

## 29. (LOSS) EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Basic (loss) earnings per share	<u>\$ (2.53)</u>	<u>\$ (2.37)</u>	<u>\$ 23.19</u>	<u>\$ (4.85)</u>
Diluted (loss) earnings per share	<u>\$ (2.53)</u>	<u>\$ (2.37)</u>	<u>\$ 22.82</u>	<u>\$ (4.85)</u>

The (loss) profit and weighted average number of ordinary shares outstanding used for the computation of (loss) earnings per share are as follows:

### Net (Loss) Profit for the Period

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
(Loss) profit for the period attributable to owners of the parent	<u>\$ (2,074,417)</u>	<u>\$ (1,950,571)</u>	<u>\$19,021,775</u>	<u>\$ (3,983,116)</u>

### Shares

Unit: In Thousands of Shares

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Weighted average number of ordinary shares used in the computation of basic (loss) earnings per share	819,616	821,818	820,272	821,879
Effect of potentially dilutive ordinary shares:				
Employee share options	2	-	12	-
Employees' compensation issued	<u>-</u>	<u>-</u>	<u>13,251</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted (loss) earnings per share	<u>819,618</u>	<u>821,818</u>	<u>833,535</u>	<u>821,879</u>

If the Company offered to settle the 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 (loss) earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted (loss) 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 was beneath the average market price of the shares during the six months ended June 30, 2018, which was included in the computation of diluted (loss) earnings per share. The exercise price of the options issued by the Company exceeded the average market price of the shares during the six months ended June 30, 2017, which were anti-dilutive and excluded from the computation of diluted (loss) earnings per share.

### 30. BUSINESS COMBINATIONS

#### a. Subsidiaries acquired

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

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

#### b. Considerations transferred

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

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

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

#### d. Non-controlling interests

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

e. Goodwill recognized on acquisition

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

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

The total amount of acquisition goodwill was not deductible for tax purposes.

f. Net cash inflow on acquisition of subsidiaries

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

g. Impact of acquisitions on the results of the 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\$30,666,732 thousand, and the loss from continuing operations would have been NT\$4,006,009 thousand for the six months ended June 30, 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

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

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

	<b>CGC</b>
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

	<b>CGC</b>
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

	<b>CGC</b>
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-yearly 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 are as follows:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Not later than 1 year	\$ 131,428	\$ 131,412	\$ 107,637
Later than 1 year and not later than 5 years	247,327	297,913	289,964
Later than 5 years	<u>44,705</u>	<u>59,321</u>	<u>87,333</u>
	<u>\$ 423,460</u>	<u>\$ 488,646</u>	<u>\$ 484,934</u>



## The Company as Lessor

Operating leases relate to the leasing of investment properties with lease terms between 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 are as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Not later than 1 year	\$ 463,484	\$ -	\$ -
Later than 1 year and not later than 5 years	38,624	-	-
Later than 5 years	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 502,108</u>	<u>\$ -</u>	<u>\$ -</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 are as follows:

	For the Six Months Ended June 30			
	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	<u>(7,400)</u>		<u>(1,902)</u>	
Balance, end of period	<u>8,519</u>	136.55	<u>18,170</u>	136.55
Options exercisable, end of period	<u>8,285</u>		<u>13,257</u>	

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

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Range of exercise prices (NT\$)	\$54.5-\$149	\$54.5-\$149	\$54.5-\$149
Weighted-average remaining contractual life (years)	4.80 years	5.24 years	5.80 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 are as follows:

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

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

### **Employee Restricted Shares**

In the shareholders' meeting on June 19, 2014 and June 2, 2015, the shareholders approved a restricted share plan for employees amounting to NT\$50,000 thousand and NT\$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 dividends in cash or shares.
- c. The employees holding these shares have no voting rights.

If an employee fails to meet the vesting conditions, HTC will recall or buy back and cancel the restricted shares. For 2017 and the six months ended June 30, 2018, HTC retired 1,193 thousand and 1,713 thousand restricted shares for employees amounting to NT\$11,926 thousand and NT\$17,134 thousand, respectively. As a result, the numbers of HTC's issued and outstanding employee restricted shares as of June 30, 2018 was 1,487 thousand shares. The related information is 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 costs of share-based payment arrangements recognized were NT\$17,871 thousand and NT\$105,218 thousand for the six months ended June 30, 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, the prevailing interest rate, and the 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 measured 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 measured at fair value approximate their fair values when their fair values cannot be measured reliably.

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

a. Fair value hierarchy

June 30, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	\$ -	\$ 541,782	\$ -	\$ 541,782
Convertible bonds	-	-	141,044	141,044
Warrants	-	-	15,856	15,856
	<u>\$ -</u>	<u>\$ 541,782</u>	<u>\$ 156,900</u>	<u>\$ 698,682</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market shares	\$ 97,943	\$ -	\$ -	\$ 97,943
Domestic unlisted shares	-	-	559,497	559,497
Overseas listed shares	442,106	-	-	442,106
Overseas unlisted shares	-	-	1,389,484	1,389,484
Overseas unlisted beneficiary certificates	-	-	723,612	723,612
	<u>\$ 540,049</u>	<u>\$ -</u>	<u>\$ 2,672,593</u>	<u>\$ 3,212,642</u>
Financial liabilities at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	<u>\$ -</u>	<u>\$ 334,147</u>	<u>\$ -</u>	<u>\$ 334,147</u>

December 31, 2017

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

June 30, 2017

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL				
Derivative financial instruments	\$ -	\$ 208,770	\$ -	\$ 208,770
Available-for-sale financial assets				
Domestic listed shares - equity investments	\$ 85	\$ -	\$ -	\$ 85
Overseas listed shares - equity investments	278,161	-	-	278,161
	<u>\$ 278,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278,246</u>
Financial liabilities at FVTPL				
Derivative financial instruments	\$ -	\$ 78,069	\$ -	\$ 78,069
Hedging derivative liabilities				
Derivative financial instruments	\$ -	\$ 8,130	\$ -	\$ 8,130

There were no transfers between Levels 1 and 2 for the six months ended June 30, 2018 and 2017.

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

For the six months ended June 30, 2018

<b>Financial Assets</b>	<b>Financial Assets at FVTPL Derivatives</b>	<b>Financial Assets at FVTOCI Equity Instruments</b>	<b>Total</b>
Balance at January 1, 2018	\$ 131,742	\$ 3,024,565	\$ 3,156,307
Recognized in other comprehensive income	-	(454,052)	(454,052)
Reclassification	(7,378)	7,378	-
Purchases	28,926	37,209	66,135
Effect of foreign currency exchange differences	3,610	57,493	61,103
Balance at June 30, 2018	<u>\$ 156,900</u>	<u>\$ 2,672,593</u>	<u>\$ 2,829,493</u>

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

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

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 of which fair values are based on valuations provided by market participants or quoted prices of the counterparty. Quantitative information is not disclosed since the relationship between significant unobservable inputs and the fair value cannot be fully controlled.

e. Valuation process for Level 3 fair value measurement

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

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

No sensitivity analysis of replacement assumptions 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 the adoption of a self-estimated model.

**Categories of Financial Instruments**

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
<u>Financial assets</u>			
Financial assets at FVTPL			
Held for trading (Note 1)	\$ -	\$ 196,941	\$ 311,935
Mandatorily at FVTPL	698,682	-	-
Loans and receivables (Note 2)	-	27,211,199	43,528,837
Available-for-sale financial assets (Note 3)	-	3,367,695	3,458,441
Amortized cost (Note 4)	50,101,613	-	-
Financial assets at FVTOCI			
Equity instruments	3,212,642	-	-
<u>Financial liabilities</u>			
Financial liabilities at FVTPL			
Held for trading	334,147	75,184	78,069
Derivative financial liabilities	-	-	8,130
Amortized cost (Note 5)	22,166,196	26,389,180	38,635,399

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

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

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

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

### **Financial Risk Management Objectives and Policies**

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 which were 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 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 department and Board of Directors for monitoring risks and implementing policies 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 exposed to foreign currency risk at the end of the reporting period are set out in Note 40.

### Sensitivity analysis

The Company was mainly exposed to the United States dollar (“USD”), Euro (“EUR”), Renminbi (“RMB”) and Japanese yen (“JPY”).

The following table details the Company’s sensitivity to a 1% increase and decrease in the New Taiwan dollar (“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 strengthening 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be an equal and opposite impact on pre-tax profit (loss) or equity, and the balances below would be negative.

	<b>Profit or Loss</b>	<b>Equity</b>
<u>For the six months ended June 30, 2018</u>		
USD	\$ 34,009	\$ (140,231)
EUR	(3,360)	(3,332)
RMB	(12,191)	(106,834)
JPY	(2,444)	(1,451)
<u>For the six months ended June 30, 2017</u>		
USD	16,220	(153,926)
EUR	3,754	(4,738)
RMB	(18,217)	(108,010)
JPY	880	(1,347)

#### b. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a 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 the failure of counterparties to discharge an obligation and financial guarantees provided by the Company could arise from the carrying amounts of the respective recognized financial assets as stated in the balance sheets. The Company does not issue any financial guarantees involving credit risk.

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

The credit risk information of trade receivables is disclosed in 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 maturities 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.

June 30, 2018

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 4,494,261	\$ 7,090,070	\$ -
Other payables	5,293,503	5,101,608	-
Other current liabilities	76,213	-	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>110,541</u>
	<u>\$ 9,863,977</u>	<u>\$ 12,191,678</u>	<u>\$ 110,541</u>

December 31, 2017

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

June 30, 2017

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Non-derivative financial liabilities</u>			
Short-term borrowings	\$ 8,550,000	\$ -	\$ -
Note and trade payables	9,667,248	8,132,040	-
Other payables	6,358,071	5,775,220	-
Other current liabilities	115,735	30,952	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>6,133</u>
	<u>\$ 24,691,054</u>	<u>\$ 13,938,212</u>	<u>\$ 6,133</u>



2) Liquidity risk rate tables for derivative financial instruments

The following table details the Company's liquidity analysis for its derivative financial instruments. The table is 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.

June 30, 2018

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Net settled</u>			
Foreign exchange contracts	\$ (196,964)	\$ -	\$ -
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 25,259,264	\$ -	\$ -
Outflows	<u>(24,819,060)</u>	<u>-</u>	<u>-</u>
	<u>\$ 440,204</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2017

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Net settled</u>			
Foreign exchange contracts	\$ 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>

June 30, 2017

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>Over 1 Year</b>
<u>Net settled</u>			
Foreign exchange contracts	\$ (74,133)	\$ -	\$ -
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 16,756,828	\$ -	\$ -
Outflows	<u>(16,697,318)</u>	<u>-</u>	<u>-</u>
	<u>\$ 59,510</u>	<u>\$ -</u>	<u>\$ -</u>

3) Bank credit limit

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Unsecured bank general credit limit			
Amount used	\$ 418,301	\$ 294,870	\$ 8,843,904
Amount unused	<u>18,307,887</u>	<u>18,315,345</u>	<u>11,397,616</u>
	<u>\$ 18,726,188</u>	<u>\$ 18,610,215</u>	<u>\$ 20,241,520</u>

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

### 36. RELATED-PARTY TRANSACTIONS

Balances, 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 information disclosed elsewhere in other notes, details of transactions between the Company and other related parties are disclosed below.

#### Names and Relationships of Related-parties

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

#### Operating Sales

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>June 30</u>	<u>June 30</u>	<u>June 30</u>	<u>June 30</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Other related parties	<u>\$ 13,865</u>	<u>\$ 1,152</u>	<u>\$ 17,949</u>	<u>\$ 5,967</u>

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

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Other related parties	<u>\$ 277</u>	<u>\$ 22,400</u>	<u>\$ 20</u>

some related parties whose received products sold at prices which were no different from sales to third parties. No guarantees had been given or received for trade receivables from related parties. Trade receivables from related parties were assessed to have no bad debt risk, hence no bad debt expense had been recognized for the six months ended June 30, 2018 and 2017.

## Purchase

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Other related parties	<u>\$ 2,254</u>	<u>\$ 116</u>	<u>\$ 4,568</u>	<u>\$ 2,392</u>

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

	June 30, 2018	December 31, 2017	June 30, 2017
Other related parties	<u>\$ 3,074</u>	<u>\$ 960</u>	<u>\$ 978</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 June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Short-term benefits	\$ 21,756	\$ 22,300	\$ 106,127	\$ 44,091
Post-employment benefits	112	412	272	840
Share-based payments	<u>2,085</u>	<u>12,715</u>	<u>4,146</u>	<u>25,290</u>
	<u>\$ 23,953</u>	<u>\$ 35,427</u>	<u>\$ 110,545</u>	<u>\$ 70,221</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 June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
VIA Technologies (China) Co., Ltd.	\$ 4,771	\$ 9,595	\$ 10,786	\$ 12,060
Other related parties	<u>1,826</u>	<u>880</u>	<u>2,939</u>	<u>2,075</u>
	<u>\$ 6,597</u>	<u>\$ 10,475</u>	<u>\$ 13,725</u>	<u>\$ 14,135</u>

The Company leased offices, staff dormitories and meeting rooms owned by VIA Technologies (China) Co., Ltd. and a related party under operating lease agreements. The rental payment is determined based on the prevailing rate in the surrounding area.

## Other Related-party Transactions

Other related parties provide selling and marketing services to the Company. The selling and marketing service expenses was NT\$4,000 thousand for the six months ended June 30, 2017.

### 37. PLEDGED ASSETS

As of June 30, 2018, December 31, 2017 and June 30, 2017, time deposits amounting to NT\$472,634 thousand, NT\$149,810 thousand and NT\$152,759 thousand which were classified as other financial assets were provided respectively as collateral for rental deposits, litigation and cooperative vendors.

### 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 the Company devices. In July 2017, the German Federal Patent Court found that EP 687 patent is invalid.

Philips’ infringement hearing relating to their patent number European Patent No. 1459165 was heard on 16 May 2018. The patent concerned scrolling functionality. Unusually, the judges dismissed the infringement allegations at the hearing rather than waiting to issue a written decision. The other infringement case based on Philips’ patents is taking place in the second quarter of 2018. This case is based on patent European Patent No. 1356367 which relates to dimming control of a device screen. The infringement trial was scheduled on 22 June 2018, and the decision has not been released.

Philips filed a lawsuit against the Company in United Kingdom, alleging infringement of certain Philips SEP patents. In October 2017, the court of appeal of the United Kingdom dismissed the Company'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 the Company with a defense against the patent actions in suit relating to this technology. The technical hearings of the three patents- in- suit has proceed as follows: European Patent No. (UK) 1440525 was heard in late April 2018. The Court decision shows that Company infringes '525. Company has implemented workaround to '525. European Patent No. (UK) 1685659 was heard in middle of June and the Court rules that '1685659 is invalid. As for European Patent No. (UK) 1623511 was heard in early July 2018 and the decision has not been released yet.

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 above-mentioned patent-in-suit.

- 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 EVENTS AFTER THE REPORTING PERIOD

On July 2, 2018, the Company announced their decision to optimize the manufacturing department in Taiwan, including a reduction of 1,500 employees in the manufacturing department in order to ensure operational efficiency and for competitive advantage. The plan is expected to be completed by the end of September 2018.

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

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

	June 30, 2018		December 31, 2017		June 30, 2017	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>						
Monetary items						
USD	\$ 1,354,006	30.49	\$ 1,156,853	29.84	\$ 1,701,038	30.43
EUR	73,783	35.44	63,262	35.66	51,046	34.73
JPY	4,927,366	0.2756	5,825,499	0.2649	5,355,379	0.2716
RMB	1,563,673	4.60	1,188,839	4.58	1,321,780	4.49
Non-monetary items						
USD	88,300	30.49	85,590	29.84	84,522	30.43
RMB	4,217	4.60	1,536	4.58	669	4.49
Investments accounted for using the equity method						
USD	16,992	30.49	13,460	29.84	14,392	30.43
RMB	1,502	4.60	2,513	4.58	1,611	4.49
<u>Financial liabilities</u>						
Monetary items						
USD	988,862	30.49	793,530	29.84	1,260,345	30.43
EUR	46,435	35.44	66,494	35.66	47,266	34.73
JPY	3,200,503	0.2756	4,922,152	0.2649	8,224,462	0.2716
RMB	229,559	4.60	179,398	4.58	225,244	4.49

For the six months ended June 30, 2018 and 2017, realized and unrealized net foreign exchange gains were NT\$135,496 thousand and NT\$215,597 thousand, respectively. It is impractical to disclose net foreign exchange gains or losses by each significant foreign currency due to the variety of foreign currency transactions and functional currencies of the Company's entities.

#### 41. 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.

(Continued)

<b>Contractor</b>	<b>Term</b>	<b>Description</b>
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

(Concluded)

#### **42. 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 and sale of smart mobile and virtual reality devices of which the operating revenue is more than 90 percent of the total revenue. The Company is considered a single segment. The basis of information reported to the chief operating decision maker is the same as the consolidated financial statements. Because the basis of segment information reported to the chief operating decision maker is the same as the consolidated financial statements, the segment revenue and results for the six months ended June 30, 2018 and 2017 can be referred to in the consolidated statements of comprehensive income and the segment assets and liabilities as of June 30, 2018 and 2017 can be referred to in the consolidated balance sheets.