

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2017 and 2016 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and its subsidiaries (collectively, the "Company") as of March 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph for them to be in conformity 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.

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 5, 2017

Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2017 (Reviewed)		December 31, 2016 (Audited)		March 31, 2016 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 26,565,598	29	\$ 30,080,217	29	\$ 39,031,628	33
Financial assets at fair value through profit or loss - current (Notes 7 and 31)	77,332	-	143,642	-	127,521	-
Available-for-sale financial assets - current (Note 31)	236,144	-	199,344	-	249,575	-
Derivative financial assets for hedging - current (Notes 8 and 31)	-	-	-	-	1,100	-
Debt investments with no active market - current (Note 31)	7,582	-	8,067	-	8,069	-
Trade receivables, net (Notes 11 and 32)	9,046,951	10	15,961,835	15	11,525,883	10
Other receivables (Note 11)	231,759	-	168,526	-	645,546	1
Current tax assets	137,458	-	184,817	-	172,703	-
Inventories (Note 12)	14,923,347	16	14,163,571	14	19,210,735	16
Prepayments (Note 13)	1,593,590	2	1,833,499	2	3,726,028	3
Non-current assets held for sale (Note 14)	1,563,732	2	-	-	-	-
Other current financial assets (Notes 10 and 33)	6,576,255	7	5,750,450	6	2,684,493	2
Other current assets	70,367	-	68,414	-	76,504	-
Total current assets	<u>61,030,115</u>	<u>66</u>	<u>68,562,382</u>	<u>66</u>	<u>77,459,785</u>	<u>65</u>
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Note 31)	96	-	86	-	86	-
Financial assets measured at cost - non-current (Notes 9 and 31)	3,266,107	3	3,363,736	3	3,330,763	3
Debt investments with no active market (Note 31)	29,570	-	25,009	-	-	-
Investments accounted for using equity method (Note 16)	466,341	-	531,445	1	211,122	-
Property, plant and equipment (Note 17)	11,712,682	13	12,025,496	12	14,943,270	13
Investment properties, net (Note 18)	-	-	1,527,001	1	1,680,709	2
Intangible assets (Note 19)	3,316,074	4	3,878,356	4	5,022,059	4
Deferred tax assets	8,996,321	10	8,957,876	9	8,735,824	7
Refundable deposits (Note 31)	1,360,583	1	1,501,480	1	1,617,463	1
Long-term receivables (Note 11)	-	-	-	-	1,472,529	1
Net defined benefit asset - non-current	45,231	-	40,439	-	81,201	-
Other non-current assets (Note 13)	<u>2,568,848</u>	<u>3</u>	<u>2,735,876</u>	<u>3</u>	<u>4,623,867</u>	<u>4</u>
Total non-current assets	<u>31,761,853</u>	<u>34</u>	<u>34,586,800</u>	<u>34</u>	<u>41,718,893</u>	<u>35</u>
TOTAL	<u>\$ 92,791,968</u>	<u>100</u>	<u>\$ 103,149,182</u>	<u>100</u>	<u>\$ 119,178,678</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 20)	\$ 2,756,560	3	\$ -	-	\$ -	-
Financial liabilities at fair value through profit or loss - current (Notes 7 and 31)	194,631	-	133,420	-	264,718	-
Derivative financial liability for hedging - current (Notes 8 and 31)	12,110	-	-	-	3,309	-
Note and trade payables (Notes 21 and 32)	21,109,467	23	26,247,728	26	25,778,172	22
Other payables (Notes 22 and 32)	13,569,654	15	18,348,734	18	21,597,135	18
Current tax liabilities	143,595	-	155,651	-	136,316	-
Provisions - current (Note 23)	3,143,478	3	3,384,311	3	5,298,140	4
Other current liabilities (Notes 14 and 22)	<u>3,747,735</u>	<u>4</u>	<u>3,004,432</u>	<u>3</u>	<u>3,032,395</u>	<u>3</u>
Total current liabilities	<u>44,677,230</u>	<u>48</u>	<u>51,274,276</u>	<u>50</u>	<u>56,110,185</u>	<u>47</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities	85,823	-	81,294	-	79,057	-
Guarantee deposits received (Note 31)	6,289	-	22,106	-	27,613	-
Other non-current liabilities (Notes 14 and 22)	-	-	-	-	1,210,369	1
Total non-current liabilities	<u>92,112</u>	<u>-</u>	<u>103,400</u>	<u>-</u>	<u>1,317,039</u>	<u>1</u>
Total liabilities	<u>44,769,342</u>	<u>48</u>	<u>51,377,676</u>	<u>50</u>	<u>57,427,224</u>	<u>48</u>
EQUITY (Note 24)						
Share capital - ordinary shares	8,219,042	9	8,220,087	8	8,276,415	7
Capital surplus	15,626,493	17	15,614,641	15	15,487,941	13
Retained earnings						
Legal reserve	18,297,655	20	18,297,655	18	18,297,655	15
Unappropriated earnings	8,808,880	9	10,841,425	10	19,077,139	16
Other equity	<u>(2,929,444)</u>	<u>(3)</u>	<u>(1,202,302)</u>	<u>(1)</u>	<u>612,304</u>	<u>1</u>
Total equity	<u>48,022,626</u>	<u>52</u>	<u>51,771,506</u>	<u>50</u>	<u>61,751,454</u>	<u>52</u>
TOTAL	<u>\$ 92,791,968</u>	<u>100</u>	<u>\$ 103,149,182</u>	<u>100</u>	<u>\$ 119,178,678</u>	<u>100</u>

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

HTC CORPORATION AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 25 and 32)	\$ 14,530,823	100	\$ 14,820,982	100
OPERATING COST (Notes 12, 26 and 32)	<u>12,167,637</u>	<u>84</u>	<u>13,433,886</u>	<u>90</u>
GROSS PROFIT	<u>2,363,186</u>	<u>16</u>	<u>1,387,096</u>	<u>10</u>
OPERATING EXPENSES (Notes 26 and 32)				
Selling and marketing	1,271,023	9	1,984,328	13
General and administrative	875,376	6	1,248,618	9
Research and development	<u>2,574,388</u>	<u>17</u>	<u>2,957,261</u>	<u>20</u>
Total operating expenses	<u>4,720,787</u>	<u>32</u>	<u>6,190,207</u>	<u>42</u>
OPERATING LOSS	<u>(2,357,601)</u>	<u>(16)</u>	<u>(4,803,111)</u>	<u>(32)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 26)	272,189	2	237,979	1
Other gains and losses (Notes 8, 14 and 26)	81,531	-	2,101,768	14
Finance costs	(2,467)	-	(4,235)	-
Share of the profit or loss of associate and joint venture (Note 16)	<u>(34,392)</u>	<u>-</u>	<u>(28,362)</u>	<u>-</u>
Total non-operating income and expenses	<u>316,861</u>	<u>2</u>	<u>2,307,150</u>	<u>15</u>
LOSS BEFORE INCOME TAX	(2,040,740)	(14)	(2,495,961)	(17)
INCOME TAX BENEFIT (EXPENSE) (Note 27)	<u>8,195</u>	<u>-</u>	<u>(120,486)</u>	<u>(1)</u>
LOSS FOR THE PERIOD	<u>(2,032,545)</u>	<u>(14)</u>	<u>(2,616,447)</u>	<u>(18)</u>

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HTC CORPORATION AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	\$ (1,805,815)	(12)	\$ (434,730)	(3)
Unrealized gain (loss) on available-for-sale financial assets	50,044	-	(103,724)	-
Cash flow hedge	<u>(12,882)</u>	<u>-</u>	<u>(2,627)</u>	<u>-</u>
Other comprehensive loss for the period, net of income tax	<u>(1,768,653)</u>	<u>(12)</u>	<u>(541,081)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>\$ (3,801,198)</u>	<u>(26)</u>	<u>\$ (3,157,528)</u>	<u>(21)</u>
NET LOSS ATTRIBUTABLE TO Owners of the parent	<u>\$ (2,032,545)</u>	<u>(14)</u>	<u>\$ (2,616,447)</u>	<u>(18)</u>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO Owners of the parent	<u>\$ (3,801,198)</u>	<u>(26)</u>	<u>\$ (3,157,528)</u>	<u>(21)</u>
LOSS PER SHARE (Note 28)				
Basic	<u>\$ (2.47)</u>		<u>\$ (3.16)</u>	

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Share Capital		Retained Earnings		Other Equity					Total Equity
	Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for-sale Financial Assets	Cash Flow Hedge	Unearned Employee Benefit	Treasury Shares	
BALANCE, JANUARY 1, 2016	\$ 8,318,695	\$ 15,505,853	\$ 18,297,655	\$ 21,782,432	\$ 1,473,417	\$ (13,633)	\$ -	\$ (371,369)	\$ (200,955)	\$ 64,792,095
Net loss for the three months ended March 31, 2016	-	-	-	(2,616,447)	-	-	-	-	-	(2,616,447)
Other comprehensive income and loss for the three months ended March 31, 2016	-	-	-	-	(434,730)	(103,724)	(2,627)	-	-	(541,081)
Retirement of treasury shares	(41,100)	(71,009)	-	(88,846)	-	-	-	-	200,955	-
Share-based payments	(1,180)	53,097	-	-	-	-	-	64,970	-	116,887
BALANCE, MARCH 31, 2016	<u>\$ 8,276,415</u>	<u>\$ 15,487,941</u>	<u>\$ 18,297,655</u>	<u>\$ 19,077,139</u>	<u>\$ 1,038,687</u>	<u>\$ (117,357)</u>	<u>\$ (2,627)</u>	<u>\$ (306,399)</u>	<u>\$ -</u>	<u>\$ 61,751,454</u>
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
Net loss for the three months ended March 31, 2017	-	-	-	(2,032,545)	-	-	-	-	-	(2,032,545)
Other comprehensive income and loss for the three months ended March 31, 2017	-	-	-	-	(1,805,815)	50,044	(12,882)	-	-	(1,768,653)
Share-based payments	(1,045)	11,852	-	-	-	-	-	41,511	-	52,318
BALANCE, MARCH 31, 2017	<u>\$ 8,219,042</u>	<u>\$ 15,626,493</u>	<u>\$ 18,297,655</u>	<u>\$ 8,808,880</u>	<u>\$ (2,587,113)</u>	<u>\$ (117,038)</u>	<u>\$ (12,882)</u>	<u>\$ (212,411)</u>	<u>\$ -</u>	<u>\$ 48,022,626</u>

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	\$ (2,040,740)	\$ (2,495,961)
Adjustments for:		
Depreciation expense	275,763	520,531
Amortization expense	355,370	505,104
Finance costs	2,467	4,235
Interests income	(75,181)	(123,227)
Dividend income	(7,420)	(78,453)
Compensation cost of employee share-based payments	52,318	116,887
Share of the loss of associate and joint venture	34,392	28,362
Net loss (gain) on disposal of property, plant and equipment	129	(2,089,417)
Impairment loss on non-financial assets	1,385,920	471,594
Ineffective portion of cash flow hedges	(772)	(418)
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	127,521	196,146
Decrease in trade receivables	6,914,884	6,993,065
Increase in other receivables	(59,561)	(171,290)
Increase in inventories	(2,145,696)	(558,692)
Decrease in prepayments	239,909	674,940
(Increase) decrease in other current assets	(1,953)	18,107
Decrease in other non-current assets	43,312	132,152
Decrease in note and trade payables	(5,138,261)	(3,820,213)
Decrease in other payables	(4,767,172)	(3,560,887)
Decrease in provisions	(240,833)	(694,118)
Decrease in other current liabilities	(644,940)	(657,368)
Increase in other operating liabilities	-	1,210,369
Cash used in operations	(5,690,544)	(3,378,552)
Interest received	71,509	100,982
Interest paid	(2,467)	(4,235)
Income tax paid	(12,612)	(174,064)
Net cash used in operating activities	<u>(5,634,114)</u>	<u>(3,455,869)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire debt investment with no active market	(6,139)	-
Payments to acquire financial assets measured at cost	(68,372)	-
Proceeds from disposal of non-current assets held for sale	-	6,060,000
Payments for property, plant and equipment	(30,705)	(125,449)
Proceeds from disposal of property, plant and equipment	1,384	28,095
Increase in advance receipts - disposal of property	1,388,243	-
Increase in refundable deposits	-	(37,121)
Decrease in refundable deposits	140,897	-

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended	
	March 31	
	2017	2016
Payments for intangible assets	\$ -	\$ (72,763)
(Increase) decrease in other current financial assets	(825,805)	1,415,797
Dividends received	<u>7,420</u>	<u>23,537</u>
Net cash generated from investing activities	<u>606,923</u>	<u>7,292,096</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	2,756,560	-
Refund of guarantee deposits received	<u>(15,817)</u>	<u>(2,546)</u>
Net cash generated from (used in) financing activities	<u>2,740,743</u>	<u>(2,546)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(1,228,171)</u>	<u>(148,852)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,514,619)	3,684,829
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>30,080,217</u>	<u>35,346,799</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 26,565,598</u>	<u>\$ 39,031,628</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by HTC’s Board of Directors and authorized for issue on May 5, 2017.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the FSC for application starting from 2017

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Company’s accounting policies, except for the following:

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

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

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

The disclosures of related party transactions will be enhanced when the above amendments are retrospectively applied in 2017.

b. New IFRSs in issue but not yet endorsed by FSC

The Company has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that amendments to IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

<u>New, Amended or Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IFRS 15 “Clarifications to IFRS 15”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company's accounting policies, except for the following:

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

The impairment of financial assets

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

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

Hedge accounting

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

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

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

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

3) IFRS 16 "Leases"

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

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

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

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

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

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

The Company shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These 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.

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

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

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, 2016. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2016.

a. 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.

b. 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Accrued marketing and advertising expenses

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

As of March 31, 2017, December 31, 2016 and March 31, 2016, the carrying amounts of accrued marketing and advertising expenses were NT\$7,904,672 thousand, NT\$9,791,579 thousand and NT\$12,985,278 thousand, respectively.

b. Allowances for doubtful debts

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

As of March 31, 2017, December 31, 2016 and March 31, 2016, the carrying amounts of allowances for doubtful debts were NT\$4,123,459 thousand, NT\$4,187,999 thousand and NT\$3,012,869 thousand, respectively.

c. Impairment of tangible and intangible assets other than goodwill

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

d. Valuation of inventories

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

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

As of March 31, 2017, December 31, 2016 and March 31, 2016, the carrying amounts of inventories were NT\$14,923,347 thousand, NT\$14,163,571 thousand and NT\$19,210,735 thousand, respectively.

e. Realization of deferred tax assets

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

As of March 31, 2017, December 31, 2016 and March 31, 2016, the carrying amounts of deferred tax assets were NT\$8,996,321 thousand, NT\$8,957,876 thousand and NT\$8,735,824 thousand, respectively.

f. Estimates of warranty provision

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

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

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

As of March 31, 2017, December 31, 2016 and March 31, 2016, the carrying amounts of warranty provision were NT\$2,812,565 thousand, NT\$3,010,969 thousand and NT\$4,683,241 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	March 31, 2017	December 31, 2016	March 31, 2016
Cash on hand	\$ 1,613	\$ 1,811	\$ 2,134
Checking accounts and demand deposits	21,351,630	24,722,314	29,989,035
Time deposits (with original maturities less than three months)	<u>5,212,355</u>	<u>5,356,092</u>	<u>9,040,459</u>
	<u>\$ 26,565,598</u>	<u>\$ 30,080,217</u>	<u>\$ 39,031,628</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Financial assets held for trading</u>			
Derivatives financial assets (not under hedge accounting)			
Foreign exchange contracts	\$ <u>77,332</u>	\$ <u>143,642</u>	\$ <u>127,521</u>
<u>Financial liabilities held for trading</u>			
Derivatives financial liabilities (not under hedge accounting)			
Foreign exchange contracts	\$ <u>194,631</u>	\$ <u>133,420</u>	\$ <u>264,718</u>

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)
<u>March 31, 2017</u>				
Foreign exchange contracts	Sell	USD/NTD	2017.04.12-2017.05.17	USD 75,000
Foreign exchange contracts	Sell	JPY/USD	2017.04.12-2017.05.10	JPY 4,450,000
Foreign exchange contracts	Sell	GBP/USD	2017.04.19	GBP 2,000
Foreign exchange contracts	Sell	AUD/USD	2017.04.26	AUD 2,500
Foreign exchange contracts	Buy	RMB/USD	2017.04.12-2017.05.10	RMB 735,640
Foreign exchange contracts	Buy	USD/NTD	2017.04.12-2017.05.17	USD 433,500
Foreign exchange contracts	Buy	SGD/USD	2017.04.12-2017.05.12	SGD 252,579
<u>December 31, 2016</u>				
Foreign exchange contracts	Sell	USD/NTD	2017.01.06-2017.01.25	USD 120,000
Foreign exchange contracts	Sell	EUR/USD	2017.01.06	EUR 40,000
Foreign exchange contracts	Sell	JPY/USD	2017.01.06-2017.01.25	JPY 5,085,622
Foreign exchange contracts	Sell	GBP/USD	2017.01.06-2017.01.20	GBP 6,000
Foreign exchange contracts	Buy	RMB/USD	2017.01.06-2017.01.25	RMB 926,817
Foreign exchange contracts	Buy	CAD/USD	2017.01.11-2017.01.25	CAD 5,000
Foreign exchange contracts	Buy	USD/NTD	2017.01.06-2017.02.02	USD 387,500
Foreign exchange contracts	Buy	SGD/USD	2017.01.06-2017.01.25	SGD 252,579
Foreign exchange contracts	Buy	AUD/USD	2017.01.06-2017.01.11	AUD 4,700
<u>March 31, 2016</u>				
Foreign exchange contracts	Sell	SGD/USD	2016.04.29	SGD 5,336
Foreign exchange contracts	Sell	JPY/USD	2016.04.13	JPY 150,000
Foreign exchange contracts	Sell	GBP/USD	2016.04.13-2016.04.29	GBP 5,500
Foreign exchange contracts	Sell	USD/NTD	2016.04.06	USD 10,000
Foreign exchange contracts	Buy	RMB/USD	2016.04.08	RMB 85,000
Foreign exchange contracts	Buy	USD/NTD	2016.04.01-2016.06.15	USD 326,071
Foreign exchange contracts	Buy	SGD/USD	2016.04.29-2016.06.29	SGD 200,790

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Derivative financial assets under hedge accounting</u>			
Cash flow hedges - foreign exchange forward contracts	\$ -	\$ -	\$ 1,100
<u>Derivative financial liabilities under hedge accounting</u>			
Cash flow hedges - foreign exchange forward contracts	\$ 12,110	\$ -	\$ 3,309

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

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

	Buy/Sell	Currency	Settlement Period/Date	Notional Amount (In Thousands)
<u>March 31, 2017</u>				
Forward exchange contracts	Sell	JPY/USD	2017.07.21	JPY 2,500,000
<u>March 31, 2016</u>				
Forward exchange contracts	Sell	JPY/USD	2016.06.30-2016.07.29	JPY 2,556,023

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

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

	For the Three Months Ended March 31	
	2017	2016
Revenues	\$ -	\$ -
Other gains and losses	<u>772</u>	<u>418</u>
	<u>\$ 772</u>	<u>\$ 418</u>

9. FINANCIAL ASSETS MEASURED AT COST

	March 31, 2017	December 31, 2016	March 31, 2016
Domestic unlisted equity investment	\$ 643,961	\$ 643,961	\$ 643,961
Overseas unlisted equity investment	1,946,550	2,013,101	2,005,503
Overseas unlisted mutual funds	<u>675,596</u>	<u>706,674</u>	<u>681,299</u>
	<u>\$ 3,266,107</u>	<u>\$ 3,363,736</u>	<u>\$ 3,330,763</u>
Classified according to financial asset measurement categories			
Available-for-sale financial assets	<u>\$ 3,266,107</u>	<u>\$ 3,363,736</u>	<u>\$ 3,330,763</u>

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

10. OTHER CURRENT FINANCIAL ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Time deposits with original maturities more than three months	<u>\$ 6,576,255</u>	<u>\$ 5,750,450</u>	<u>\$ 2,684,493</u>

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

11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Trade and overdue receivables</u>			
Trade receivables	\$ 9,918,868	\$ 16,818,037	\$ 12,697,789
<u>Trade and overdue receivables</u>			
Trade receivables - related parties	5	15,720	16
Overdue receivables	1,840,947	1,840,947	1,840,947
Less: Allowances for impairment loss - trade receivables	(871,922)	(871,922)	(1,171,922)
Less: Allowances for impairment loss - overdue receivables	<u>(1,840,947)</u>	<u>(1,840,947)</u>	<u>(1,840,947)</u>
	<u>\$ 9,046,951</u>	<u>\$ 15,961,835</u>	<u>\$ 11,525,883</u>
Current	\$ 9,046,951	\$ 15,961,835	\$ 11,525,883
Non-current	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,046,951</u>	<u>\$ 15,961,835</u>	<u>\$ 11,525,883</u>

(Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Other receivables</u>			
Receivables from disposal of investments	\$ 1,205,633	\$ 1,260,795	\$ 1,274,917
Interest receivables	228,649	234,355	210,676
VAT refund receivables	160,955	113,839	142,134
Others	47,112	34,667	490,348
Less: Allowances for impairment loss	<u>(1,410,590)</u>	<u>(1,475,130)</u>	<u>-</u>
	<u>\$ 231,759</u>	<u>\$ 168,526</u>	<u>\$ 2,118,075</u>
Current	\$ 231,759	\$ 168,526	\$ 645,546
Non-current	<u>-</u>	<u>-</u>	<u>1,472,529</u>
	<u>\$ 231,759</u>	<u>\$ 168,526</u>	<u>\$ 2,118,075</u>

(Concluded)

Trade Receivables

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

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

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

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

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

Aging of trade receivables

	March 31, 2017	December 31, 2016	March 31, 2016
1-90 days	\$ 257,735	\$ 2,120,237	\$ 758,338
91-180 days	276,284	445,727	120,104
Over 181 days	<u>511,779</u>	<u>323,945</u>	<u>886,566</u>
	<u>\$ 1,045,798</u>	<u>\$ 2,889,909</u>	<u>\$ 1,765,008</u>

The above aging schedule was based on the past due date.

Aging of impaired trade receivables

	March 31, 2017	December 31, 2016	March 31, 2016
1-90 days	\$ 173,876	\$ 1,887,581	\$ 593,086
91-180 days	-	130,406	-
Over 181 days	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 173,876</u>	<u>\$ 2,017,987</u>	<u>\$ 593,086</u>

The above aging of trade receivables after deducting the allowance for impairment loss were presented based on the past due date.

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

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ 2,712,869	\$ 3,016,914
Less: Amounts written off during the period as uncollectible	-	(4,077)
Add: Effect of foreign currency exchange differences	<u>-</u>	<u>32</u>
Balance, end of period	<u>\$ 2,712,869</u>	<u>\$ 3,012,869</u>

Other Receivables

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

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

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

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ 1,475,130	\$ -
Less: Effect of foreign currency exchange differences	<u>(64,540)</u>	<u>-</u>
Balance, end of period	<u>\$ 1,410,590</u>	<u>\$ -</u>

12. INVENTORIES

	March 31, 2017	December 31, 2016	March 31, 2016
Finished goods	\$ 3,404,007	\$ 2,468,223	\$ 3,267,187
Work-in-process	829,257	233,952	1,297,932
Semi-finished goods	2,191,319	2,168,606	2,969,821
Raw materials	8,182,417	9,125,604	11,317,782
Inventory in transit	<u>316,347</u>	<u>167,186</u>	<u>358,013</u>
	<u>\$ 14,923,347</u>	<u>\$ 14,163,571</u>	<u>\$ 19,210,735</u>

The cost of inventories recognized as operating costs for the three months ended March 31, 2017 and 2016 included inventory write-downs of NT\$1,385,920 thousand and NT\$471,594 thousand, respectively.

13. PREPAYMENTS

	March 31, 2017	December 31, 2016	March 31, 2016
Royalty	\$ 3,002,602	\$ 3,109,677	\$ 6,357,998
Net input VAT	508,468	727,750	1,045,669
Prepaid equipment	62,182	75,954	89,206
Prepayments to suppliers	11,861	17,431	156,221
Land use right	-	107,732	118,359
Others	<u>577,325</u>	<u>530,831</u>	<u>582,442</u>
	<u>\$ 4,162,438</u>	<u>\$ 4,569,375</u>	<u>\$ 8,349,895</u>
Current	\$ 1,593,590	\$ 1,833,499	\$ 3,726,028
Non-current	<u>2,568,848</u>	<u>2,735,876</u>	<u>4,623,867</u>
	<u>\$ 4,162,438</u>	<u>\$ 4,569,375</u>	<u>\$ 8,349,895</u>

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

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

14. NON-CURRENT ASSETS HELD FOR SALE

	March 31, 2017	December 31, 2016	March 31, 2016
Land and buildings held for sale	<u>\$ 1,563,732</u>	<u>\$ -</u>	<u>\$ -</u>

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

On March 15, 2017, HTC' Board of Directors passed a resolution to sell land and factory in Shanghai to Shanghai Xingbao Information Technology Co., Ltd. with the amount of RMB630,000 thousand. The trading amount of RMB315,000 thousand (NT\$1,388,243 thousand) has been collected and recognized as advance receipts. While the transferring process has not yet been completed, the assets was recognized as non-current assets held for sale without impairment loss valued as of March 31, 2017.

15. SUBSIDIARIES

a. Subsidiary included in consolidated financial statements

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

Investor	Investee	Main Businesses	% of Ownership			Remark	
			March 31, 2017	December 31, 2016	March 31, 2016		
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	100.00	-	
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-	
	HTC Investment Corporation	General investing activities	100.00	100.00	100.00	-	
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales services	1.00	1.00	1.00	-	
	HTC I Investment Corporation	General investing activities	100.00	100.00	100.00	-	
	HTC Holding Cooperatief U.A.	International holding company	0.01	0.01	0.01	-	
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	100.00	-	
	HTC Investment (BVI) Corporation	General investing activities	100.00	100.00	100.00	-	
	HTC VIVE Holding (BVI) Corp.	International holding company	100.00	100.00	100.00	-	
H.T.C. (B.V.I.) Corp.	HTC VIVE Investment (BVI) Corp.	General investing activities	100.00	100.00	-	1)	
	DeepQ Holding (BVI) Corp.	International holding company	100.00	-	-	2)	
	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	-	
	High Tech Computer Asia Pacific Pte. Ltd.	HTC India Private Ltd.	Marketing, repair and after-sales services	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	-	
High Tech Computer Asia Pacific Pte. Ltd.	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	Marketing, repair and after-sales services	100.00	100.00	100.00	-	
	HTC Myanmar Company Limited	"	99.00	99.00	99.00	-	
	HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	100.00	100.00	100.00	-
	HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership			Remark
			March 31, 2017	December 31, 2016	March 31, 2016	
HTC Communication Technologies (SH)	HTC Communication (BJ) Tech Co.	Design, research and development of application software	100.00	100.00	100.00	-
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	100.00	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
	HTC Myanmar Company Limited	Marketing, repair and after-sales services	1.00	1.00	1.00	-
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	1.00	-
	HTC South Eastern Europe Limited Liability Company	"	0.67	0.67	0.67	-
	HTC Communication Solutions Mexico, S.A DE C.V.	"	1.00	1.00	1.00	-
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	1.00	1.00	1.00	-
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company	100.00	100.00	100.00	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	99.99	-
	HTC Belgium BVBA/SPRL	"	100.00	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	99.33	-
	HTC Nordic ApS.	"	100.00	100.00	100.00	-
	HTC Italia SRL	"	100.00	100.00	100.00	-
	HTC Germany GmbH	"	100.00	100.00	100.00	-
	HTC Iberia, S.L.	"	100.00	100.00	100.00	-
	HTC Poland sp. z.o.o.	"	100.00	100.00	100.00	-
	HTC Communication Canada, Ltd.	"	100.00	100.00	100.00	-
	HTC Communication Sweden AB	"	100.00	100.00	100.00	-
	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	100.00	-
	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Communication Solutions Mexico, S.A DE C.V.	"	99.00	99.00	99.00	-
HTC Netherlands B.V.	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	-
DeepQ Holding (BVI) Corp.	DeepQ (BVI) Corp.	International holding company	100.00	-	-	2)

(Concluded)

Remark:

- 1) HTC VIVE Investment (BVI) Corp. was incorporated in September 2016.
 - 2) DeepQ Holding (BVI) Corp. and DeepQ (BVI) Corp. were incorporated in March 2017.
- b. Subsidiary excluded from consolidated financial statements: None.

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	March 31, 2017	December 31, 2016	March 31, 2016
Investment in associates	\$ 466,341	\$ 531,445	\$ 28,415
Investment in joint ventures	<u>-</u>	<u>-</u>	<u>182,707</u>
	<u>\$ 466,341</u>	<u>\$ 531,445</u>	<u>\$ 211,122</u>

Investments in Associate

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Unlisted equity investment</u>			
East West Artists, LLC	\$ 24,284	\$ 25,532	\$ 28,415
Steel Wool Games, Inc.	128,860	150,282	-
Surgical Theater, LLC	302,465	344,080	-
Gui Zhou Wei Ai Educational Technology Co., Ltd.	<u>10,732</u>	<u>11,551</u>	<u>-</u>
	<u>\$ 466,341</u>	<u>\$ 531,445</u>	<u>\$ 28,415</u>

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

Name of Associate	March 31, 2017	December 31, 2016	March 31, 2016
East West Artists, LLC	25.00%	25.00%	25.00%
Steel Wool Games, Inc.	49.00%	49.00%	-
Surgical Theater, LLC	20.51%	21.09%	-
Gui Zhou Wei Ai Educational Technology Co., Ltd.	25.00%	25.00%	-

The Company acquired 12.5% equity interest in East West Artists, LLC for US\$500 thousand in December 2014, and further acquired additional 12.5% equity interest for US\$500 thousand in December 2015, with a total 25% equity interest held and accounted for under the equity method.

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

In September 2015, the Company acquired 12.30% equity interest in Surgical Theater, LLC for US\$5,000 thousand and such equity investment was recognized as financial assets measured at cost - non-current. In August 2016, the equity interest was increased to 21.09% after the Company's making an additional investment of US\$6,000 thousand. Thereafter, the subject equity investments are accounted for under the equity method.

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

Aggregate information of associates that are not individually material:

	For the Three Months Ended March 31	
	2017	2016
The Company's share of:		
Loss from continuing operations	\$ (34,392)	\$ (2,757)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u>\$ (34,392)</u>	<u>\$ (2,757)</u>

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

Investments in Joint Venture

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Unlisted equity investments</u>			
Huada Digital Corporation	\$ <u>-</u>	\$ <u>-</u>	\$ <u>182,707</u>

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

Name of Joint Venture	March 31, 2017	December 31, 2016	March 31, 2016
Huada Digital Corporation	-	-	50.00%

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

Aggregate information of joint venture that are not individually material:

	For the Three Months Ended March 31	
	2017	2016
The Company's share of:		
Loss from continuing operations	\$ -	\$ (25,605)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive losses for the period	<u>\$ -</u>	<u>\$ (25,605)</u>

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

17. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2017	December 31, 2016	March 31, 2016
Carrying amounts			
Land	\$ 4,668,951	\$ 4,674,792	\$ 6,468,188
Buildings	5,395,157	5,473,812	5,688,330
Machinery and equipment	1,098,110	1,267,842	1,994,320
Other equipment	<u>550,464</u>	<u>609,050</u>	<u>792,432</u>
	<u>\$ 11,712,682</u>	<u>\$ 12,025,496</u>	<u>\$ 14,943,270</u>

Movement of property, plant and equipment for the three months ended March 31, 2017 and 2016 were as follows:

	2017				Total
	Land	Buildings	Machinery and Equipment	Other Equipment	
<u>Cost</u>					
Balance, beginning of period	\$ 4,674,792	\$ 7,321,116	\$ 13,614,889	\$ 2,301,452	\$ 27,912,249
Additions	-	8,393	12,767	11,409	32,569
Disposals	-	-	(101,613)	(11,003)	(112,616)
Reclassification	-	-	(39,865)	-	(39,865)
Effect of foreign currency exchange differences	<u>(5,841)</u>	<u>(21,265)</u>	<u>(131,735)</u>	<u>(48,866)</u>	<u>(207,707)</u>
Balance, end of period	<u>4,668,951</u>	<u>7,308,244</u>	<u>13,354,443</u>	<u>2,252,992</u>	<u>27,584,630</u>
<u>Accumulated depreciation</u>					
Balance, beginning of period	-	1,847,304	11,816,261	1,686,963	15,350,528
Depreciation expenses	-	68,354	149,882	51,591	269,827
Disposals	-	-	(101,613)	(9,490)	(111,103)
Reclassification	-	-	(21,013)	-	(21,013)
Effect of foreign currency exchange differences	<u>-</u>	<u>(2,571)</u>	<u>(109,859)</u>	<u>(31,876)</u>	<u>(144,306)</u>
Balance, end of period	<u>-</u>	<u>1,913,087</u>	<u>11,733,658</u>	<u>1,697,188</u>	<u>15,343,933</u>

(Continued)

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

	2016				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Balance, beginning of period	\$ 6,470,507	\$ 7,361,368	\$ 13,754,405	\$ 2,507,338	\$ 30,093,618
Additions	-	214,049	33,186	52,456	299,691
Disposals	-	-	(2,492)	(118,543)	(121,035)
Reclassification	6,587	(201,433)	(11,100)	(1,173)	(207,119)
Effect of foreign currency exchange differences	(8,906)	(32,338)	(29,227)	(16,485)	(86,956)
Balance, end of period	<u>6,468,188</u>	<u>7,341,646</u>	<u>13,744,772</u>	<u>2,423,593</u>	<u>29,978,199</u>

<u>Accumulated depreciation</u>					
Balance, beginning of period	-	1,590,155	10,912,770	1,634,316	14,137,241
Depreciation expenses	-	66,452	349,022	92,609	508,083
Disposals	-	-	(2,492)	(88,271)	(90,763)
Reclassification	-	-	(6,443)	(547)	(6,990)
Effect of foreign currency exchange differences	-	(3,291)	(23,368)	(10,230)	(36,889)
Balance, end of period	<u>-</u>	<u>1,653,316</u>	<u>11,229,489</u>	<u>1,627,877</u>	<u>14,510,682</u>

<u>Accumulated impairment</u>					
Balance, beginning of period	-	-	520,963	3,284	524,247
Impairment losses	-	-	-	-	-
Balance, end of period	<u>-</u>	<u>-</u>	<u>520,963</u>	<u>3,284</u>	<u>524,247</u>
Net book value, end of period	<u>\$ 6,468,188</u>	<u>\$ 5,688,330</u>	<u>\$ 1,994,320</u>	<u>\$ 792,432</u>	<u>\$ 14,943,270</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.

There were no capitalized interests for the three months ended March 31, 2017 and 2016.

18. INVESTMENT PROPERTIES, NET

Movement of investment properties, net for the three months ended March 31, 2017 and 2016 were as follows:

	2017	2016
<u>Cost</u>		
Balance, beginning of period	\$ 1,829,827	\$ 1,992,798
Eliminations	(1,504)	-
Reclassification	(1,791,715)	-
Effect of foreign currency exchange differences	<u>(36,608)</u>	<u>(18,150)</u>
Balance, end of period	<u>-</u>	<u>1,974,648</u>
<u>Accumulated depreciation</u>		
Balance, beginning of period	302,826	284,309
Depreciation expense	5,936	12,448
Eliminations	(1,504)	-
Reclassification	(301,200)	-
Effect of foreign currency exchange differences	<u>(6,058)</u>	<u>(2,818)</u>
Balance, end of period	<u>-</u>	<u>293,939</u>
Net book value, end of period	<u>\$ -</u>	<u>\$ 1,680,709</u>

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

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

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

19. INTANGIBLE ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Carrying amounts			
Patents	\$ 3,047,037	\$ 3,547,151	\$ 4,458,149
Other intangible assets	<u>269,037</u>	<u>331,205</u>	<u>563,910</u>
	<u>\$ 3,316,074</u>	<u>\$ 3,878,356</u>	<u>\$ 5,022,059</u>

Movements of intangible assets for the three months ended March 31, 2017 and 2016 were as follows:

	2017			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Cost</u>				
Balance, beginning of period	\$ 12,197,140	\$ 684,668	\$ 1,840,154	\$ 14,721,962
Eliminations	-	-	(7,093)	(7,093)
Effect of foreign currency exchange differences	<u>(582,450)</u>	<u>(30,709)</u>	<u>(36,383)</u>	<u>(649,542)</u>
Balance, end of period	<u>11,614,690</u>	<u>653,959</u>	<u>1,796,678</u>	<u>14,065,327</u>
<u>Accumulated amortization</u>				
Balance, beginning of period	8,538,904	-	1,333,403	9,872,307
Amortization expenses	294,986	-	60,384	355,370
Eliminations	-	-	(7,093)	(7,093)
Effect of foreign currency exchange differences	<u>(377,322)</u>	<u>-</u>	<u>(24,037)</u>	<u>(401,359)</u>
Balance, end of period	<u>8,456,568</u>	<u>-</u>	<u>1,362,657</u>	<u>9,819,225</u>
<u>Accumulated impairment</u>				
Balance, beginning of period	111,085	684,668	175,546	971,299
Effect of foreign currency exchange differences	<u>-</u>	<u>(30,709)</u>	<u>(10,562)</u>	<u>(41,271)</u>
Balance, end of period	<u>111,085</u>	<u>653,959</u>	<u>164,984</u>	<u>930,028</u>
Net book value, end of period	<u>\$ 3,047,037</u>	<u>\$ -</u>	<u>\$ 269,037</u>	<u>\$ 3,316,074</u>
	2016			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Cost</u>				
Balance, beginning of period	\$ 12,434,890	\$ 697,203	\$ 1,785,537	\$ 14,917,630
Additions	-	-	72,763	72,763
Effect of foreign currency exchange differences	<u>(235,650)</u>	<u>(12,424)</u>	<u>(14,093)</u>	<u>(262,167)</u>
Balance, end of period	<u>12,199,240</u>	<u>684,779</u>	<u>1,844,207</u>	<u>14,728,226</u>
<u>Accumulated amortization</u>				
Balance, beginning of period	7,336,883	-	1,031,158	8,368,041
Amortization expenses	423,224	-	81,880	505,104
Effect of foreign currency exchange differences	<u>(130,101)</u>	<u>-</u>	<u>(8,325)</u>	<u>(138,426)</u>
Balance, end of period	<u>7,630,006</u>	<u>-</u>	<u>1,104,713</u>	<u>8,734,719</u>

(Continued)

	2016			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Accumulated impairment</u>				
Balance, beginning of period	\$ 111,085	\$ 697,203	\$ 179,857	\$ 988,145
Effect of foreign currency exchange differences	<u>-</u>	<u>(12,424)</u>	<u>(4,273)</u>	<u>(16,697)</u>
Balance, end of period	<u>111,085</u>	<u>684,779</u>	<u>175,584</u>	<u>971,448</u>
Net book value, end of period	<u>\$ 4,458,149</u>	<u>\$ -</u>	<u>\$ 563,910</u>	<u>\$ 5,022,059</u> (Concluded)

The Company owns patents of graphics technologies. As of March 31, 2017, December 31, 2016 and March 31, 2016, the carrying amounts of such patents were NT\$3,032,800 thousand, NT\$3,529,477 thousand and NT\$4,438,019 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

20. SHORT-TERM BORROWINGS

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Unsecured borrowings</u>			
Line of credit borrowings	<u>\$ 2,756,560</u>	<u>\$ -</u>	<u>\$ -</u>

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

21. NOTE AND TRADE PAYABLES

	March 31, 2017	December 31, 2016	March 31, 2016
Notes payable	\$ 603	\$ 580	\$ 545
Trade payables	<u>21,108,864</u>	<u>26,247,148</u>	<u>25,777,627</u>
	<u>\$ 21,109,467</u>	<u>\$ 26,247,728</u>	<u>\$ 25,778,172</u>

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

22. OTHER LIABILITIES

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Other payables</u>			
Accrued expenses	\$ 13,487,733	\$ 18,254,905	\$ 21,268,423
Payables for purchase of equipment	<u>81,921</u>	<u>93,829</u>	<u>328,712</u>
	<u>\$ 13,569,654</u>	<u>\$ 18,348,734</u>	<u>\$ 21,597,135</u>
<u>Other liabilities</u>			
Advance receipts (Note 14)	\$ 3,422,940	\$ 2,397,707	\$ 3,813,661
Agency receipts	138,520	434,266	291,317
Others	<u>186,275</u>	<u>172,459</u>	<u>137,786</u>
	<u>\$ 3,747,735</u>	<u>\$ 3,004,432</u>	<u>\$ 4,242,764</u>
Current	\$ 3,747,735	\$ 3,004,432	\$ 3,032,395
Non-current	<u>-</u>	<u>-</u>	<u>1,210,369</u>
	<u>\$ 3,747,735</u>	<u>\$ 3,004,432</u>	<u>\$ 4,242,764</u>

Accrued Expenses

	March 31, 2017	December 31, 2016	March 31, 2016
Marketing	\$ 7,904,672	\$ 9,791,579	\$ 12,985,278
Materials and molding expenses	2,136,570	3,077,500	3,283,647
Services	1,182,618	1,196,062	1,340,041
Salaries and bonuses	1,085,165	2,029,695	1,917,483
Import, export and freight	272,764	651,893	589,605
Insurance	118,758	137,183	217,227
Repairs, maintenance and sundry purchase	118,681	98,773	124,643
Others	<u>668,505</u>	<u>1,272,220</u>	<u>810,499</u>
	<u>\$ 13,487,733</u>	<u>\$ 18,254,905</u>	<u>\$ 21,268,423</u>

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

23. PROVISIONS

	March 31, 2017	December 31, 2016	March 31, 2016
Warranties	\$ 2,812,565	\$ 3,010,969	\$ 4,683,241
Provisions for contingent loss on purchase orders	<u>330,913</u>	<u>373,342</u>	<u>614,899</u>
	<u>\$ 3,143,478</u>	<u>\$ 3,384,311</u>	<u>\$ 5,298,140</u>

Movement of provisions for the three months ended March 31, 2017 and 2016 were as follows:

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

	2016		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of period	\$ 5,314,365	\$ 677,893	\$ 5,992,258
Provisions recognized (reversed)	956,715	(50,663)	906,052
Usage	(1,583,849)	(12,331)	(1,596,180)
Effect of foreign currency exchange differences	<u>(3,990)</u>	<u>-</u>	<u>(3,990)</u>
Balance, end of period	<u>\$ 4,683,241</u>	<u>\$ 614,899</u>	<u>\$ 5,298,140</u>

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

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

24. EQUITY

Share Capital

a. Ordinary shares

	March 31, 2017	December 31, 2016	March 31, 2016
Numbers of shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Shares authorized	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Number of shares issued and fully paid (in thousands of shares)	<u>821,904</u>	<u>822,009</u>	<u>827,642</u>
Shares issued	<u>\$ 8,219,042</u>	<u>\$ 8,220,087</u>	<u>\$ 8,276,415</u>

In February 2016, HTC retired 118 thousand restricted shares for employees, totaling NT\$1,180 thousand and retired 4,110 thousand treasury shares, totaling NT\$41,100 thousand. As a result, HTC's issued and outstanding common stock as of March 31, 2016 decreased to NT\$8,276,415 thousand, divided into 827,642 thousand ordinary shares at NT\$10 par value. Every ordinary share carries one vote per share and a right to dividends.

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

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

b. Global depositary receipts

In November 2003, HTC issued 14,400 thousand ordinary shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, HTC's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand ordinary shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of stock dividends, the GDRs increased to 8,782.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested HTC to redeem the GDRs to get HTC's ordinary shares. As of March 31, 2017, there were 5,735 thousand units of GDRs redeemed, representing 22,942 thousand ordinary shares, and the outstanding GDRs represented 13,119 thousand ordinary shares or 1.60 % of HTC's outstanding ordinary shares.

Capital Surplus

	March 31, 2017	December 31, 2016	March 31, 2016
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>			
Arising from issuance of ordinary shares	\$ 14,121,223	\$ 14,121,223	\$ 14,242,211
Arising from consolidation excess	23,288	23,288	23,487
Arising from expired stock options	96,696	84,462	43,896
<u>May not be used for any purpose</u>			
Arising from employee share options	643,684	645,111	587,756
Arising from employee restricted shares	<u>741,602</u>	<u>740,557</u>	<u>590,591</u>
	<u>\$ 15,626,493</u>	<u>\$ 15,614,641</u>	<u>\$ 15,487,941</u>

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

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

For details of capital surplus - employee share options and employee restricted shares, please see Note 29.

Retained Earnings and Dividend Policy

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

- a. To pay taxes.
- b. To cover accumulated losses, if any.
- c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of HTC's authorized capital.
- d. To recognize or reverse special reserve return earnings.
- e. The Board of Directors shall propose allocation ratios for any remainder profit after withholding the amounts under subparagraphs 1 to 4 above plus any unappropriated retained earnings of previous years based on the dividend policy set forth in the Article and propose such allocation ratio at the shareholders' meeting.

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

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

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

The loss off-setting for 2015 had been resolved in the shareholders' meeting on June 24, 2016, and the loss off-setting for 2016 had been proposed in the Board of Directors' meeting on March 6, 2017. The loss off-setting for 2016 are subject to the resolution of the shareholders' meeting to be held on June 15, 2017.

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

Other Equity

	March 31, 2017	December 31, 2016	March 31, 2016
Exchange differences on translating foreign operations	\$ (2,587,113)	\$ (781,298)	\$ 1,038,687
Unrealized losses on available-for-sale financial assets	(117,038)	(167,082)	(117,357)
Effective portion of gains and losses on hedging instruments in a cash flow hedge	(12,882)	-	(2,627)
Unearned employee benefit	<u>(212,411)</u>	<u>(253,922)</u>	<u>(306,399)</u>
	<u>\$ (2,929,444)</u>	<u>\$ (1,202,302)</u>	<u>\$ 612,304</u>

a. Exchange differences on translating foreign operations

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

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

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

c. Cash flow hedge

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

d. Unearned employee benefit

In the meeting of shareholders on June 2, 2015 and June 19, 2014, the shareholders approved a restricted stock plan for employees. See Note 29 for the information of restricted shares issued.

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ (253,922)	\$ (371,369)
Share-based payment expenses recognized	<u>41,511</u>	<u>64,970</u>
Balance, end of period	<u>\$ (212,411)</u>	<u>\$ (306,399)</u>

Treasury Shares

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

(In Thousands of Shares)

Reason to Reacquire	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
For the three months ended <u>March 31, 2016</u>				
To maintain the Company's credibility and stockholders' interest	<u>4,110</u>	<u>-</u>	<u>4,110</u>	<u>-</u>

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

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

25. OPERATING REVENUES

	For the Three Months Ended March 31	
	2017	2016
Sale of goods	\$ 14,267,438	\$ 14,322,042
Other operating income	<u>263,385</u>	<u>498,940</u>
	<u>\$ 14,530,823</u>	<u>\$ 14,820,982</u>

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

a. Other income

	For the Three Months Ended March 31	
	2017	2016
Interest income		
Bank deposits	\$ 61,028	\$ 63,771
Other receivables	-	19,678
Others	<u>14,153</u>	<u>39,778</u>
	75,181	123,227
Dividends	7,420	78,453
Others	<u>189,588</u>	<u>36,299</u>
	<u>\$ 272,189</u>	<u>\$ 237,979</u>

b. Other gains and losses

	For the Three Months Ended March 31	
	2017	2016
Net gain on disposal of non-current assets held for sale (Note 14)	\$ -	\$ 2,091,594
Net loss on the disposal of property, plant and equipment	(129)	(2,177)
Net foreign exchange gain	205,271	176,346
Net loss arising from financial instruments classified as held for trading	(117,299)	(137,197)
Ineffective portion of cash flow hedge (Note 8)	772	418
Other loss	<u>(7,084)</u>	<u>(27,216)</u>
	<u>\$ 81,531</u>	<u>\$ 2,101,768</u>

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

c. Depreciation and amortization

	For the Three Months Ended March 31	
	2017	2016
Property, plant and equipment	\$ 269,827	\$ 508,083
Investment properties	5,936	12,448
Intangible assets	<u>355,370</u>	<u>505,104</u>
	<u>\$ 631,133</u>	<u>\$ 1,025,635</u>

(Continued)

	For the Three Months Ended March 31	
	2017	2016
An analysis of depreciation - by function		
Operating costs	\$ 73,756	\$ 240,814
Operating expenses	196,071	267,269
Other losses	<u>5,936</u>	<u>12,448</u>
An analysis of depreciation - by function	<u>\$ 275,763</u>	<u>\$ 520,531</u>
An analysis of amortization - by function		
Operating costs	\$ 689	\$ 773
Operating expenses	<u>354,681</u>	<u>504,331</u>
	<u>\$ 355,370</u>	<u>\$ 505,104</u>

(Concluded)

d. Employee benefits expense

	For the Three Months Ended March 31	
	2017	2016
Short-term benefits	<u>\$ 2,847,457</u>	<u>\$ 2,996,434</u>
Post-employment benefits		
Defined contribution plans	109,236	125,230
Defined benefit plans	<u>1,814</u>	<u>1,812</u>
	<u>111,050</u>	<u>127,042</u>
Share-based payments (Note 29)		
Equity-settled share-based payments	<u>52,318</u>	<u>116,887</u>
Total employee benefits expense	<u>\$ 3,010,825</u>	<u>\$ 3,240,363</u>
An analysis of employee benefits expense - by function		
Operating costs	\$ 684,094	\$ 709,885
Operating expenses	<u>2,326,731</u>	<u>2,530,478</u>
	<u>\$ 3,010,825</u>	<u>\$ 3,240,363</u>

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

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

For any further information of the employees' compensation and remuneration to directors and supervisors approved in the meeting of Board of Directors in 2017 and 2016, see disclosures in the "Market Observation Post System".

e. Impairment loss on non-financial assets

**For the Three Months Ended
March 31**

	2017	2016
Inventories (included in operating costs)	<u>\$ 1,385,920</u>	<u>\$ 471,594</u>

f. Gain or loss on foreign currency exchange

**For the Three Months Ended
March 31**

	2017	2016
Foreign exchange gain	\$ 319,738	\$ 1,074,298
Foreign exchange loss	(114,467)	(897,952)
Valuation loss arising from financial instruments classified as held for trading	(117,299)	(137,197)
Ineffective portion of cash flow hedge	<u>772</u>	<u>418</u>
	<u>\$ 88,744</u>	<u>\$ 39,567</u>

27. INCOME TAXES RELATING TO CONTINUING OPERATIONS

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

**For the Three Months Ended
March 31**

	2017	2016
Current tax		
In respect of the current period	\$ 47,915	\$ 67,116
Land value increment	<u>-</u>	<u>119,342</u>
	47,915	186,458
Deferred tax		
In respect of the current period	<u>(56,110)</u>	<u>(65,972)</u>
Income tax (benefit) expense recognized in profit or loss	<u>\$ (8,195)</u>	<u>\$ 120,486</u>

b. Integrated income tax

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

	March 31, 2017	December 31, 2016	March 31, 2016
Unappropriated earnings generated on and after January 1, 1998	<u>\$ 8,808,880</u>	<u>\$ 10,841,425</u>	<u>\$ 19,077,139</u>
Balance of ICA	<u>\$ 8,196,519</u>	<u>\$ 8,196,519</u>	<u>\$ 8,196,056</u>

Under the Income Tax Law of ROC, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident shareholders of HTC was calculated based on the creditable ratio as of the date of dividend distribution. The actual imputation credits allocated to shareholders of HTC was based on the balance of the ICA as of the date of dividend distribution. Therefore, the expected creditable ratio for the earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

c. Income tax assessments

HTC's tax returns through 2014 had been assessed by the tax authorities. HTC disagreed with the tax authorities' assessment of its 2014 tax return and applied for a re-examination. Nevertheless, to be conservative, HTC had accrued for the income tax assessed by the tax authorities.

The income tax returns of Yoda Co., Ltd. for the years through 2014 had been examined and approved by the tax authorities. The income tax returns of Communication Global Certification Inc., HTC Investment Corporation and HTC I Investment Corporation for the years through 2015 have been examined and approved by the tax authorities.

28. LOSS PER SHARE

	Unit: NT\$ Per Share	
	For the Three Months Ended March 31	
	2017	2016
Basic loss per share	<u>\$ (2.47)</u>	<u>\$ (3.16)</u>

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

Net Loss for the Period

	For the Three Months Ended March 31	
	2017	2016
Loss for the period attributable to owners of the parent	<u>\$ (2,032,545)</u>	<u>\$ (2,616,447)</u>

Shares

	Unit: In Thousands of Shares	
	For the Three Months Ended March 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic loss per share	<u>821,941</u>	<u>827,667</u>

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

29. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

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

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

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

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

Information on employee share options were as follows:

	For the Three Months Ended March 31			
	2017		2016	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance, beginning of period	20,072	\$136.65	24,964	\$137.20
Options forfeited	<u>(476)</u>		<u>(1,050)</u>	
Balance, end of period	<u>19,596</u>	136.81	<u>23,914</u>	137.23
Options exercisable, end of period	<u>14,318</u>		<u>5,789</u>	

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

	March 31, 2017	December 31, 2016	March 31, 2016
Range of exercise price (NT\$)	\$54.5 -\$149	\$54.5 -\$149	\$54.5-\$149
Weighted-average remaining contractual life (years)	6.05 years	6.30 years	7.00 years

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

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

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

Employee Restricted Shares

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

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

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

If an employee fails to meet the vesting conditions, HTC will recall or buy back and cancel the restricted shares. In 2016 and March 2017, HTC retired 1,358 thousand and 105 thousand restricted shares for employees amounting to NT\$13,578 thousand and NT\$1,045 thousand, respectively. As a result, the numbers of the HTC's issued and outstanding employee restricted shares as of March 31, 2017 was 6,441 thousand shares. The related information was as follows:

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

Compensation Cost of Share-based Payment Arrangements

Compensation cost of share-based payment arrangement recognized was NT\$52,318 thousand and NT\$116,887 thousand for the three months ended March 31, 2017 and 2016, respectively.

30. CAPITAL RISK MANAGEMENT

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

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

31. FINANCIAL INSTRUMENTS

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

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

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

a. Fair value hierarchy

March 31, 2017

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

December 31, 2016

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

March 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	\$ <u> -</u>	\$ <u> 127,521</u>	\$ <u> -</u>	\$ <u> 127,521</u>
Hedging derivative assets				
Derivative financial instruments	\$ <u> -</u>	\$ <u> 1,100</u>	\$ <u> -</u>	\$ <u> 1,100</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Domestic listed stocks - equity investments	\$ 86	\$ -	\$ -	\$ 86
Overseas listed stocks - equity investments	<u>249,575</u>	<u>-</u>	<u>-</u>	<u>249,575</u>
	<u>\$ 249,661</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,661</u>
Financial liabilities at FVTPL				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 264,718</u>	<u>\$ -</u>	<u>\$ 264,718</u>
Hedging derivative liabilities				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 3,309</u>	<u>\$ -</u>	<u>\$ 3,309</u>

(Concluded)

There were no transfers between Levels 1 and 2 for the three months ended March 31, 2017 and 2016.

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

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

Categories of Financial Instruments

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Financial assets</u>			
FVTPL			
Held for trading	\$ 77,332	\$ 143,642	\$ 127,521
Derivative instruments in designated hedge accounting relationships	-	-	1,100
Loans and receivables (Note 1)	43,818,298	53,495,584	56,985,611
Available-for-sale financial assets (Note 2)	3,502,347	3,563,166	3,580,424
<u>Financial liabilities</u>			
FVTPL			
Held for trading	194,631	133,420	264,718
Derivative instruments in designated hedge accounting relationships	12,110	-	3,309
Amortized cost (Note 3)	37,580,490	45,052,834	47,694,237

Note 1: 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 2: The balances included available-for-sale financial assets and the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, note and trade payables, other payables, agency receipts and guarantee deposits received.

Financial Risk Management Objectives and Policies

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

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

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

a. Market risk

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

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

Foreign currency risk

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

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 35.

Sensitivity analysis

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

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

	Profit or Loss	Equity
<u>For the three months ended March 31, 2017</u>		
USD	\$ 23,613	\$ (155,158)
EUR	1,587	(18,482)
RMB	(17,794)	(105,997)
JPY	7,597	(1,288)
<u>For the three months ended March 31, 2016</u>		
USD	32,514	(163,353)
EUR	(12,489)	(19,480)
RMB	(16,456)	(139,400)
JPY	(1,012)	(1,232)

b. Credit risk

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

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

The credit risk information of trade receivables are disclosed in the Note 11.

c. Liquidity risk

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

1) Liquidity risk rate tables for non-derivative financial liabilities

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

March 31, 2017

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

December 31, 2016

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

March 31, 2016

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 7,803,766	\$ 17,974,406	\$ -
Other payables	11,114,149	10,482,986	-
Other current liabilities	228,961	62,356	-
Guarantee deposits received	-	-	27,613
	<u>\$ 19,146,876</u>	<u>\$ 28,519,748</u>	<u>\$ 27,613</u>

2) Liquidity risk rate tables for derivative financial instruments

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

March 31, 2017

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

December 31, 2016

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

March 31, 2016

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	\$ (6,322)	\$ -	\$ -
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 4,030,304	\$ 11,326,123	\$ -
Outflows	(4,076,216)	(11,384,975)	-
	<u>\$ (45,912)</u>	<u>\$ (58,852)</u>	<u>\$ -</u>

3) Bank credit limit

	March 31, 2017	December 31, 2016	March 31, 2016
Unsecured bank general credit limit			
Amount used	\$ 3,384,356	\$ 710,857	\$ 1,539,731
Amount unused	<u>18,032,724</u>	<u>22,227,369</u>	<u>30,538,021</u>
	<u>\$ 21,417,080</u>	<u>\$ 22,938,226</u>	<u>\$ 32,077,752</u>

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

32. RELATED-PARTY TRANSACTIONS

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

The Names and Relationships of Related-Parties

<u>Related-Party</u>	<u>Relationship with the Company</u>
VIA Technologies Inc.	Its chairman in substance is HTC's director
VIA Labs, Inc.	Its chairman in substance is HTC's director
Way Chih Investment Co., Ltd.	HTC's supervisor
HTC Education Foundation	Its chairman in substance is HTC's director
TVBS Media Inc.	Same director as HTC's
Hung-Mao Investment Co., Ltd.	Its significant shareholder in substance is HTC's chairwoman
Employees' Welfare Committee	Employees' Welfare Committee of HTC
Huada Digital Corporation	Joint Venture

Operating Sales

	For the Three Months Ended March 31	
	<u>2017</u>	<u>2016</u>
Joint venture	\$ -	\$ 28,955
Employees' Welfare Committee	-	195
Other related parties	<u>4,815</u>	<u>3,262</u>
	<u>\$ 4,815</u>	<u>\$ 32,412</u>

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

	March 31, 2017	December 31, 2016	March 31, 2016
Other related parties	<u>\$ 5</u>	<u>\$ 15,720</u>	<u>\$ 16</u>

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been given or received for trade receivables from related parties. No bad debt expense had been recognized for the three months ended March 31, 2017 and 2016 for the amounts owed by related parties.

Purchase

	For the Three Months Ended March 31	
	2017	2016
Other related parties	<u>\$ 2,276</u>	<u>\$ -</u>

Purchase prices for related parties and third parties were similar.

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

	March 31, 2017	December 31, 2016	March 31, 2016
Other related parties	<u>\$ 2,454</u>	<u>\$ 1,866</u>	<u>\$ -</u>

The outstanding balance of trade payables to related parties are unsecured and will be settled in cash.

Compensation of Key Management Personnel

	For the Three Months Ended March 31	
	2017	2016
Short-term benefits	\$ 21,791	\$ 129,225
Post-employment benefits	428	413
Termination benefits	-	17,583
Share-based payments	<u>12,575</u>	<u>19,614</u>
	<u>\$ 34,794</u>	<u>\$ 166,835</u>

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

Other Related-party Transactions

- a. The Company leased meeting room owned by a related party under an operating lease agreement. The rental payment is determined at the prevailing rates in the surrounding area. The Company recognized and paid rental expenses amounting to NT\$1,195 thousand for the three months ended March 31, 2017.
- b. Other related parties provide selling and marketing service to the Company. The selling and marketing service expenses was NT\$1,000 and NT\$2,345 thousand for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017 and 2016, the unpaid selling and marketing service expenses was NT\$1,050 thousand and NT\$2,462 thousand, respectively.

33. PLEDGED ASSETS

As of March 31, 2017, December 31, 2016 and March 31, 2016, the time of deposits amounting to NT\$106,707 thousand, NT\$113,528 thousand and NT\$632 thousand and were classified as other current financial assets were provided respectively as collateral for rental deposits and litigation.

34. 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 one of patents-in-suit. An appeal of this decision has been started with a hearing due to be held on July 18, 2017.

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 that the Company infringed four patents relating to portable/mobile device features and four patents relating to telecommunication standards. In October 2016, the Mannheim Court found that certain smartphone products sold by Company in Germany infringed the German part of European patent No. 0888687 (EP ‘687 patent), which relates to device user interface, and granted an injunction against the Company. However, Philips has not enforced the injunction. 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 to the court.

As of the date that the Board of Directors approved and authorized for issuing consolidated financial statements, no other court decisions were issued with respect to the EP ‘687 patent.

- 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.

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	March 31, 2017		December 31, 2016		March 31, 2016	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>						
Monetary items						
USD	\$ 1,640,022	30.33	\$ 1,914,574	32.27	\$ 1,553,535	32.28
EUR	62,984	32.42	101,434	33.91	132,417	36.61
JPY	2,657,176	0.2713	2,711,104	0.2756	2,230,762	0.2871
RMB	886,658	4.41	1,208,051	4.62	1,036,153	4.99
Non-monetary items						
USD	86,562	30.33	84,259	32.27	83,243	32.28
RMB	669	4.41	167	4.62	-	-
Investments accounted for by the equity method						
USD	15,023	30.33	16,111	32.27	880	32.28
RMB	2,435	4.41	2,500	4.62	-	-
<u>Financial liabilities</u>						
Monetary items						
USD	1,231,452	30.33	1,445,356	32.27	1,162,295	32.28
EUR	52,670	32.42	93,533	33.91	81,450	36.61
JPY	7,559,939	0.2713	6,745,333	0.2756	1,410,764	0.2871
RMB	163,445	4.41	212,669	4.62	321,477	4.99

For the three months ended March 31, 2017 and 2016, realized and unrealized net foreign exchange gains were NT\$88,744 thousand and NT\$39,567 thousand, respectively. It is impractical to disclose net foreign exchange gains or losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

36. SIGNIFICANT CONTRACTS

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

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

(Continued)

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

(Concluded)

37. 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 devices and the operating revenue is more than 90 percent of the total revenue.