HTC Corporation and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 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 June 30, 2017 and 2016, and the related consolidated statements of comprehensive income for the three months ended June 30, 2017 and 2016, six months ended June 30, 2017 and 2016, and changes in equity and cash flows for the six months ended June 30, 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

July 28, 2017

<u>*Notice to Readers*</u>

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	June 30, 2017 (Reviewed) Amount	%	December 31, 2016 (Audited) Amount	%	June 30, 2016 (Reviewed) Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 25,119,152	27	$ 30,080,217	29	$ 37,150,047	32
Financial assets at fair value through profit or loss - current (Notes 7 and 31)	208,770	-	143,642	-	70,238	-
Available-for-sale financial assets - current (Note 31)	278,161	-	199,344	-	222,914	-
Debt investments with no active market - current (Note 31)	-	-	8,067	-	8,069	-
Trade receivables, net (Notes 11 and 32)	10,952,995	12	15,961,835	15	14,111,697	12
Other receivables (Note 11)	183,980	-	168,526	-	390,630	-
Current tax assets	149,311	-	184,817	-	184,763	-
Inventories (Note 12)	14,955,175	16	14,163,571	14	16,903,706	15
Prepayments (Note 13)	1,589,180	2	1,833,499	2	2,942,285	3
Non-current assets held for sale (Note 14)	1,592,749	2	-	-	-	-
Other current financial assets (Notes 10 and 33)	5,910,547	7	5,750,450	6	4,382,307	4
Other current assets	29,244	-	68,414	-	46,078	-
Total current assets	60,969,264	66	68,562,382	66	76,412,734	66
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Note 31)	85	-	86	-	107	-
Financial assets measured at cost - non-current (Notes 9 and 31)	3,283,360	4	3,363,736	3	3,387,336	3
Debt investments with no active market (Note 31)	-	-	25,009	-	-	-
Investments accounted for using equity method (Note 16)	445,205	-	531,445	1	381,077	-
Property, plant and equipment (Note 17)	11,550,121	13	12,025,496	12	12,737,095	11
Investment properties, net (Note 18)	-	-	1,527,001	1	1,622,275	2
Intangible assets (Note 19)	2,980,230	3	3,878,356	4	4,639,101	4
Deferred tax assets	8,987,568	10	8,957,876	9	8,791,229	8
Refundable deposits (Note 31)	1,362,163	1	1,501,480	1	1,507,421	1
Long-term receivables (Note 11)	-	-	-	-	1,195,947	1
Net defined benefit asset - non-current	46,420	-	40,439	-	79,452	-
Other non-current assets (Note 13)	2,448,793	3	2,735,876	3	4,533,844	4
Total non-current assets	31,103,945	34	34,586,800	34	38,874,884	34
TOTAL	$ 92,073,209	100	$ 103,149,182	100	$ 115,287,618	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 20)	$ 8,550,000	9	$ -	-	$ -	-
Financial liabilities at fair value through profit or loss - current (Notes 7 and 31)	78,069	-	133,420	-	160,272	-
Derivative financial liability for hedging - current (Notes 8 and 31)	8,130	-	-	-	-	-
Note and trade payables (Notes 21 and 32)	17,799,288	20	26,247,728	26	27,244,271	24
Other payables (Note 22)	12,133,291	13	18,348,734	18	20,610,503	18
Current tax liabilities	164,450	-	155,651	-	169,021	-
Provisions - current (Note 23)	3,008,599	3	3,384,311	3	5,221,755	4
Other current liabilities (Notes 14 and 22)	3,520,051	4	3,004,432	3	3,112,825	3
Total current liabilities	45,261,878	49	51,274,276	50	56,518,647	49
NON-CURRENT LIABILITIES						
Deferred tax liabilities	83,548	-	81,294	-	83,378	-
Guarantee deposits received (Note 31)	6,133	-	22,106	-	27,783	-
Other non-current liabilities (Note 22)	114,120	-	-	-	807,025	1
Total non-current liabilities	203,801	-	103,400	-	918,186	1
Total liabilities	45,465,679	49	51,377,676	50	57,436,833	50
EQUITY (Note 24)						
Share capital - ordinary shares	8,217,952	9	8,220,087	8	8,274,191	7
Capital surplus	15,638,510	17	15,614,641	15	15,542,083	13
Retained earnings						
Legal reserve	18,297,655	20	18,297,655	18	18,297,655	16
Unappropriated earnings	6,858,309	7	10,841,425	10	16,018,257	14
Other equity	(2,404,896)	(2)	(1,202,302)	(1)	155,468	-
Treasury shares	-	-	-	-	(436,869)	-
Total equity	46,607,530	51	51,771,506	50	57,850,785	50
TOTAL	$ 92,073,209	100	$ 103,149,182	100	$ 115,287,618	100

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 June 30				For the Six Months Ended June 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUES (Notes 25 and 32)	$ 16,135,909	100	$ 18,862,124	100	$ 30,666,732	100	$ 33,683,106	100
OPERATING COST (Notes 12, 26 and 32)	13,921,030	86	16,713,576	89	26,088,667	85	30,147,462	90
GROSS PROFIT	2,214,879	14	2,148,548	11	4,578,065	15	3,535,644	10
OPERATING EXPENSES (Notes 26 and 32)								
Selling and marketing	1,068,304	7	2,574,766	14	2,339,327	8	4,559,094	14
General and administrative	691,446	4	949,314	5	1,566,822	5	2,197,932	6
Research and development	2,652,449	17	2,864,896	15	5,226,837	17	5,822,157	17
Total operating expenses	4,412,199	28	6,388,976	34	9,132,986	30	12,579,183	37
OPERATING LOSS	(2,197,320)	(14)	(4,240,428)	(23)	(4,554,921)	(15)	(9,043,539)	(27)
NON-OPERATING INCOME AND EXPENSES								
Other income (Note 26)	130,577	1	157,656	1	402,766	1	395,635	1
Other gains and losses (Notes 8, 14 and 26)	144,327	1	1,132,492	6	225,858	1	3,234,260	10
Finance costs	(8,815)	-	-	-	(11,282)	-	(4,235)	-
Share of the loss of associates and joint venture (Note 16)	(28,804)	-	(1,141)	-	(63,196)	-	(29,503)	-
Total non-operating income and expenses	237,285	2	1,289,007	7	554,146	2	3,596,157	11
LOSS BEFORE INCOME TAX	(1,960,035)	(12)	(2,951,421)	(16)	(4,000,775)	(13)	(5,447,382)	(16)
INCOME TAX BENEFIT (EXPENSE) (Note 27)	9,464	-	(107,461)	-	17,659	-	(227,947)	(1)
LOSS FOR THE PERIOD	(1,950,571)	(12)	(3,058,882)	(16)	(3,983,116)	(13)	(5,675,329)	(17)
OTHER COMPREHENSIVE INCOME AND LOSS, NET OF INCOME TAX								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	440,496	3	(498,661)	(3)	(1,365,319)	(4)	(933,391)	(3)
Unrealized gain (loss) on available-for-sale financial assets	40,865	-	(25,772)	-	90,909	-	(129,496)	-
Cash flow hedge	1,214	-	2,627	-	(11,668)	-	-	-
Other comprehensive income and loss for the period, net of income tax	482,575	3	(521,806)	(3)	(1,286,078)	(4)	(1,062,887)	(3)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	$ (1,467,996)	(9)	$ (3,580,688)	(19)	$ (5,269,194)	(17)	$ (6,738,216)	(20)

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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 June 30				For the Six Months Ended June 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
NET LOSS ATTRIBUTABLE TO:								
Owners of the parent	$ (1,950,571)	(12)	$ (3,058,882)	(16)	$ (3,983,116)	(13)	$ (5,675,329)	(17)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:								
Owners of the parent	$ (1,467,996)	(9)	$ (3,580,688)	(19)	$ (5,269,194)	(17)	$ (6,738,216)	(20)
LOSS PER SHARE (Note 28)								
Basic	$ (2.37)		$ (3.71)		$ (4.85)		$ (6.87)	

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					
	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	Total Equity
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 six months ended June 30, 2016	-	-	-	(5,675,329)	-	-	-	-	-	(5,675,329)
Other comprehensive income and loss for the six months ended June 30, 2016	-	-	-	-	(933,391)	(129,496)	-	-	-	(1,062,887)
Buy-back of treasury stock	-	-	-	-	-	-	-	-	(436,869)	(436,869)
Retirement of treasury shares	(41,100)	(71,009)	-	(88,846)	-	-	-	-	200,955	-
Share-based payments	(3,404)	107,239	-	-	-	-	-	129,940	-	233,775
BALANCE, JUNE 30, 2016	$ 8,274,191	$ 15,542,083	$ 18,297,655	$ 16,018,257	$ 540,026	$ (143,129)	$ -	$ (241,429)	$ (436,869)	$ 57,850,785
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 six months ended June 30, 2017	-	-	-	(3,983,116)	-	-	-	-	-	(3,983,116)
Other comprehensive income and loss for the six months ended June 30, 2017	-	-	-	-	(1,365,319)	90,909	(11,668)	-	-	(1,286,078)
Share-based payments	(2,135)	23,869	-	-	-	-	-	83,484	-	105,218
BALANCE, JUNE 30, 2017	$ 8,217,952	$ 15,638,510	$ 18,297,655	$ 6,858,309	$ (2,146,617)	$ (76,173)	$ (11,668)	$ (170,438)	$ -	$ 46,607,530

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 Six Months Ended June 30	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	$ (4,000,775)	$ (5,447,382)
Adjustments for:		
Depreciation expense	531,914	1,009,638
Amortization expense	700,662	891,826
Bad debt (reversed) expenses	(362,870)	49
Finance costs	11,282	4,235
Interests income	(150,970)	(226,187)
Dividend income	(15,862)	(106,477)
Compensation cost of employee share-based payments	105,218	233,775
Share of the loss of associate and joint venture	63,196	29,503
Net loss (gain) on disposal of property, plant and equipment	4,930	(3,194,738)
Gain on disposal of investments	(24,305)	-
Impairment loss on non-financial assets	2,238,027	1,024,072
Ineffective portion of cash flow hedges	(3,538)	-
Changes in operating assets and liabilities		
(Increase) decrease in financial instruments held for trading	(120,479)	148,983
Decrease in trade receivables	5,371,710	4,707,202
Decrease in other receivables	13,687	82,150
(Increase) decrease in inventories	(3,029,631)	1,195,859
Decrease in prepayments	244,319	1,458,683
Decrease in other current assets	39,170	48,533
Decrease in other non-current assets	152,163	193,200
Decrease in note and trade payables	(8,448,440)	(2,354,114)
Decrease in other payables	(6,197,299)	(4,359,652)
Decrease in provisions	(375,712)	(770,503)
Decrease in other current liabilities	(898,385)	(576,938)
Increase in other operating liabilities	114,120	807,025
Cash used in operations	(14,037,868)	(5,201,258)
Interest received	121,829	186,264
Interest paid	(6,697)	(4,235)
Income tax return (paid)	16,938	(332,467)
Net cash used in operating activities	(13,905,798)	(5,351,696)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire debt investment with no active market	(32,918)	-
Payments to acquire financial assets measured at cost	(73,229)	(66,081)
Proceeds from sale of financial assets measured at cost	85,169	-
Acquisition of associates	(6,019)	(161,893)
Proceeds from disposal of non-current assets held for sale	-	6,060,000
Payments for property, plant and equipment	(95,728)	(389,776)

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2017	**2016**
Proceeds from disposal of property, plant and equipment	$ 2,168	$ 2,905,128
Increase in advance receipts - disposal of property	1,388,243	-
Decrease in refundable deposits	139,317	72,921
Payments for intangible assets	-	(75,456)
Increase in other current financial assets	(160,097)	(282,017)
Dividends received	15,862	106,477
Net cash generated from investing activities	1,262,768	8,169,303
CASH FLOWS FROM FINANCING ACTIVITIES		
Buy-back of treasury shares	-	(436,869)
Increase in short-term borrowings	8,550,000	-
Refund of guarantee deposits received	(15,973)	(2,376)
Net cash generated from (used in) financing activities	8,534,027	(439,245)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(852,062)	(575,114)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,961,065)	1,803,248
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	30,080,217	35,346,799
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 25,119,152	$ 37,150,047

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

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 depositary receipts.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by HTC's Board of Directors and authorized for issue on July 28, 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 Financial Supervisory Commission (FSC)

   The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC 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 and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

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

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

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

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

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

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

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

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, measurement and impairment of financial assets

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

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

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

   b) For debt instruments, if they are held within a business model whose objective is achieved by both 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 the above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

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

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

Hedge accounting

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

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

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

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

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

3) IFRIC 22"Foreign Currency Transactions and Advance Consideration"

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

The Company will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

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

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

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

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 16 "Leases"

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

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

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

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

2) IFRIC 23 "Uncertainty Over Income Tax Treatments"

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These 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 June 30, 2017, December 31, 2016 and June 30, 2016, the carrying amounts of accrued marketing and advertising expenses were NT$6,704,655 thousand, NT$9,791,579 thousand and NT$11,682,549 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 June 30, 2017, December 31, 2016 and June 30, 2016, the carrying amounts of allowances for doubtful debts were NT$3,860,882 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 June 30, 2017, December 31, 2016 and June 30, 2016, the carrying amounts of inventories were NT$14,955,175 thousand, NT$14,163,571 thousand and NT$16,903,706 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 June 30, 2017, December 31, 2016 and June 30, 2016, the carrying amounts of deferred tax assets were NT$8,987,568 thousand, NT$8,957,876 thousand and NT$8,791,229 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 June 30, 2017, December 31, 2016 and June 30, 2016, the carrying amounts of warranty provision were NT$2,770,408 thousand, NT$3,010,969 thousand and NT$4,675,286 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	June 30, 2017	December 31, 2016	June 30, 2016
Cash on hand	$ 1,790	$ 1,811	$ 1,963
Checking accounts and demand deposits	17,830,812	24,722,314	29,331,653
Time deposits (with original maturities less than three months)	7,286,550	5,356,092	7,816,431
	$ 25,119,152	$ 30,080,217	$ 37,150,047

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2017	December 31, 2016	June 30, 2016
Financial assets held for trading			
Derivatives financial assets (not under hedge accounting)			
Forward exchange contracts	$ 208,770	$ 143,642	$ 70,238
Financial liabilities held for trading			
Derivatives financial liabilities (not under hedge accounting)			
Forward exchange contracts	$ 78,069	$ 133,420	$ 160,272

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)
June 30, 2017				
Forward exchange contracts	Sell	USD/NTD	2017.07.07-2017.09.08	USD 250,000
Forward exchange contracts	Sell	JPY/USD	2017.07.07-2017.08.30	JPY 4,600,000
Forward exchange contracts	Sell	GBP/USD	2017.07.28	GBP 6,000
Forward exchange contracts	Sell	CAD/USD	2017.07.07	CAD 3,000

(Continued)

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
Forward exchange contracts	Buy	RMB/USD	2017.07.14-2017.08.23	RMB	770,940
Forward exchange contracts	Buy	USD/NTD	2017.07.12-2017.08.11	USD	562,000
Forward exchange contracts	Buy	SGD/USD	2017.07.14-2017.08.23	SGD	252,579
December 31, 2016					
Forward exchange contracts	Sell	USD/NTD	2017.01.06-2017.01.25	USD	120,000
Forward exchange contracts	Sell	EUR/USD	2017.01.06	EUR	40,000
Forward exchange contracts	Sell	JPY/USD	2017.01.06-2017.01.25	JPY	5,085,622
Forward exchange contracts	Sell	GBP/USD	2017.01.06-2017.01.20	GBP	6,000
Forward exchange contracts	Buy	RMB/USD	2017.01.06-2017.01.25	RMB	926,817
Forward exchange contracts	Buy	CAD/USD	2017.01.11-2017.01.25	CAD	5,000
Forward exchange contracts	Buy	USD/NTD	2017.01.06-2017.02.02	USD	387,500
Forward exchange contracts	Buy	SGD/USD	2017.01.06-2017.01.25	SGD	252,579
Forward exchange contracts	Buy	AUD/USD	2017.01.06-2017.01.11	AUD	4,700
June 30, 2016					
Forward exchange contracts	Sell	SGD/USD	2016.07.08	SGD	5,336
Forward exchange contracts	Sell	JPY/USD	2016.08.05-2016.08.26	JPY	2,940,024
Forward exchange contracts	Sell	GBP/USD	2016.07.06-2016.08.05	GBP	12,000
Forward exchange contracts	Buy	RMB/USD	2016.07.08-2016.07.27	RMB	979,858
Forward exchange contracts	Buy	USD/TWD	2016.07.05-2016.08.05	USD	430,009
Forward exchange contracts	Buy	SGD/USD	2016.07.05-2016.08.05	SGD	238,628
Forward exchange contracts	Buy	CAD/USD	2016.07.20	CAD	4,500
Forward exchange contracts	Buy	AUD/USD	2016.07.22-2016.08.05	AUD	5,100

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	June 30, 2017	December 31, 2016	June 30, 2016
Derivative financial liabilities under hedge accounting			
Cash flow hedges - forward exchange contracts	$ 8,130	$ -	$ -

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

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

	Buy/Sell	Currency	Settlement Period/Date	Notional Amount (In Thousands)	
June 30, 2017					
Forward exchange contracts	Sell	JPY/USD	2017.07.21	JPY	2,500,000

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

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Operating revenues	$ -	$ (40,299)	$ -	$ (40,299)
Other gains and losses	2,766	1,638	3,538	2,056
	$ 2,766	$ (38,661)	$ 3,538	$ (38,243)

9. FINANCIAL ASSETS MEASURED AT COST

	June 30, 2017	December 31, 2016	June 30, 2016
Domestic unlisted equity investment	$ 643,961	$ 643,961	$ 643,961
Overseas unlisted equity investment	1,858,322	2,013,101	2,060,660
Overseas unlisted mutual funds	677,912	706,674	682,715
Derivative financial instruments - convertible bonds	88,862	-	-
Derivative financial instruments - overseas warrants	14,303	-	-
	$ 3,283,360	$ 3,363,736	$ 3,387,336
Classified according to financial asset measurement categories			
Financial assets at fair value through profit or loss	$ 103,165	$ -	$ -
Available-for-sale financial assets	3,180,195	3,363,736	3,387,336
	$ 3,283,360	$ 3,363,736	$ 3,387,336

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

10. OTHER CURRENT FINANCIAL ASSETS

	June 30, 2017	December 31, 2016	June 30, 2016
Time deposits with original maturities more than three months	$ 5,910,547	$ 5,750,450	$ 4,382,307

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

11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	June 30, 2017	December 31, 2016	June 30, 2016
Trade and overdue receivables			
Trade receivables	$ 11,462,027	$ 16,818,037	$ 14,983,436
Trade receivables - related parties	20	15,720	183
Overdue receivables	1,840,947	1,840,947	1,840,947
Less: Allowances for impairment loss - trade receivables	(509,052)	(871,922)	(871,922)
Less: Allowances for impairment loss - overdue receivables	(1,840,947)	(1,840,947)	(1,840,947)
	$ 10,952,995	$ 15,961,835	$ 14,111,697
Current	$ 10,952,995	$ 15,961,835	$ 14,111,697
Non-current	-	-	-
	$ 10,952,995	$ 15,961,835	$ 14,111,697
Other receivables			
Receivables from disposal of investments	$ 1,291,353	$ 1,260,795	$ 1,279,181
Interest receivables	268,691	234,355	228,354
VAT refund receivables	63,850	113,839	223,787
Others	70,969	34,667	155,255
Less: Allowances for impairment loss	(1,510,883)	(1,475,130)	(300,000)
	$ 183,980	$ 168,526	$ 1,586,577
Current	$ 183,980	$ 168,526	$ 390,630
Non-current	-	-	1,195,947
	$ 183,980	$ 168,526	$ 1,586,577

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

	June 30, 2017	December 31, 2016	June 30, 2016
1-90 days	$ 393,889	$ 2,120,237	$ 1,385,983
91-180 days	77,507	445,727	92,609
Over 181 days	262,757	323,945	464,954
	$ 734,153	$ 2,889,909	$ 1,943,546

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

Aging of impaired trade receivables

	June 30, 2017	December 31, 2016	June 30, 2016
1-90 days	$ 225,101	$ 1,887,581	$ 1,071,624
91-180 days	-	130,406	-
Over 181 days	-	-	-
	$ 225,101	$ 2,017,987	$ 1,071,624

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 Six Months Ended June 30	
	2017	2016
Balance, beginning of period	$ 2,712,869	$ 3,016,914
Less: Impairment loss reversed	(362,870)	(299,951)
Less: Amounts written off during the period as uncollectible	-	(4,126)
Add: Effect of foreign currency exchange differences	-	32
Balance, end of period	$ 2,349,999	$ 2,712,869

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 Six Months Ended June 30	
	2017	2016
Balance, beginning of period	$ 1,475,130	$ -
Add: Impairment loss recognized	-	300,000
Less: Effect of foreign currency exchange differences	35,753	-
Balance, end of period	$ 1,510,883	$ 300,000

12. INVENTORIES

	June 30, 2017	December 31, 2016	June 30, 2016
Finished goods	$ 3,473,246	$ 2,468,223	$ 3,927,905
Work-in-process	888,363	233,952	246,799
Semi-finished goods	2,204,743	2,168,606	2,786,338
Raw materials	8,132,352	9,125,604	9,300,370
Inventory in transit	256,471	167,186	642,294
	$ 14,955,175	$ 14,163,571	$ 16,903,706

The cost of inventories recognized as operating costs for the six months ended June 30, 2017 and 2016 included inventory write-downs of NT$2,238,027 thousand and NT$1,024,072 thousand, respectively.

13. PREPAYMENTS

	June 30, 2017	December 31, 2016	June 30, 2016
Royalty	$ 2,880,018	$ 3,109,677	$ 5,814,103
Net input VAT	530,877	727,750	821,607
Prepaid equipment	52,167	75,954	58,482
Prepayments to suppliers	9,795	17,431	143,550
Land use right	-	107,732	114,360
Others	565,116	530,831	524,027
	$ 4,037,973	$ 4,569,375	$ 7,476,129
Current	$ 1,589,180	$ 1,833,499	$ 2,942,285
Non-current	2,448,793	2,735,876	4,533,844
	$ 4,037,973	$ 4,569,375	$ 7,476,129

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

	June 30, 2017	December 31, 2016	June 30, 2016
Land and buildings held for sale	$ 1,592,749	$ -	$ -

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 valuated as of June 30, 2017.

15. SUBSIDIARIES

a. Subsidiary included in consolidated financial statements

The consolidated entities as of June 30, 2017, December 31, 2016 and June 30, 2016 were as follows:

			% of Ownership			
Investor	**Investee**	**Main Businesses**	**June 30, 2017**	**December 31, 2016**	**June 30, 2016**	**Remark**
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	-
	HTC VIVE Investment (BVI) Corp.	General investing activities	100.00	100.00	-	1)
	DeepQ Holding (BVI) Corp.	International holding company	100.00	-	-	2)
H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
High Tech Computer Asia Pacific Pte. Ltd.	HTC (Australia and New Zealand) PTY. Ltd.	Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Philippines Corporation	〃	99.99	99.99	99.99	-
	PT. High Tech Computer Indonesia	〃	99.00	99.00	99.00	-
	HTC (Thailand) Limited	〃	100.00	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership June 30, 2017	December 31, 2016	June 30, 2016	Remark
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	-
	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	-
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 Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	99.99	-
	HTC Belgium BVBA/SPRL	〃	100.00	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	99.33	-
	HTC Nordic ApS.	〃	100.00	100.00	100.00	-
	HTC Italia SRL	〃	100.00	100.00	100.00	-
	HTC Germany GmbH	〃	100.00	100.00	100.00	-
	HTC Iberia, S.L.	〃	100.00	100.00	100.00	-
	HTC Poland sp. z.o.o.	〃	100.00	100.00	100.00	-
	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	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership June 30, 2017	December 31, 2016	June 30, 2016	Remark
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	-
	HTC VIVE TECH (Beijing)	〃	100.00	-	-	3)
	HTC VIVE TECH (HK) Limited	〃	100.00	-	-	3)
HTC VIVE TECH (HK) Limited	HTC VIVE TECH (UK) Limited	Research, development and sale of virtual reality devices	100.00	-	-	3)
DeepQ Holding (BVI) Corp.	DeepQ (BVI) Corp.	International holding company	100.00	-	-	2)
DeepQ (BVI) Corp.	DeepQ Technology Corp.	Medical technology and health care	100.00	-	-	3)

(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.

3) HTC VIVE TECH (Beijing), HTC VIVE TECH (HK) Limited, HTC VIVE TECH (UK) Limited and DeepQ Technology Corp. were incorporated in June 2017.

b. Subsidiary excluded from consolidated financial statements: None.

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	June 30, 2017	December 31, 2016	June 30, 2016
Investment in associates	$ 445,205	$ 531,445	$ 198,651
Investment in joint ventures	-	-	182,426
	$ 445,205	$ 531,445	$ 381,077

Investments in Associate

	June 30, 2017	December 31, 2016	June 30, 2016
Unlisted equity investment			
East West Artists, LLC	$ 29,163	$ 25,532	$ 27,562
Steel Wool Games, Inc.	117,598	150,282	171,089
Surgical Theater, LLC	291,214	344,080	-
Gui Zhou Wei Ai Educational Technology Co., Ltd.	7,230	11,551	-
	$ 445,205	$ 531,445	$ 198,651

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	June 30, 2017	December 31, 2016	June 30, 2016
East West Artists, LLC	30.00%	25.00%	25.00%
Steel Wool Games, Inc.	49.00%	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 25% equity interest in East West Artists, LLC for US$500 thousand in December 2014, and US$500 thousand in December 2015. In June 2017, the equity interest was increased to 30% after the Company's making an additional investment of US$200 thousand.

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

In September 2015, the Company acquired 12.30% equity interest in Surgical Theater, LLC for US$5,000 thousand and such equity investment was recognized as financial assets measured at cost - non-current. In August 2016, the equity interest was increased to 21.09% after the Company's making an additional investment of US$6,000 thousand. 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 June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
The Company's share of:				
Loss from continuing operations	$ (28,804)	$ (861)	$ (63,196)	$ (3,618)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	$ (28,804)	$ (861)	$ (63,196)	$ (3,618)

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

	June 30, 2017	December 31, 2016	June 30, 2016
Unlisted equity investments			
Huada Digital Corporation	$ -	$ -	$ 182,426

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	June 30, 2017	December 31, 2016	June 30, 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 June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
The Company's share of:				
Loss from continuing operations	$ -	$ (280)	$ -	$ (25,885)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	$ -	$ (280)	$ -	$ (25,885)

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

	June 30, 2017	December 31, 2016	June 30, 2016
Carrying amounts			
Land	$ 4,674,758	$ 4,674,792	$ 4,687,327
Buildings	5,352,700	5,473,812	5,629,283
Machinery and equipment	999,809	1,267,842	1,710,253
Other equipment	522,854	609,050	710,232
	$ 11,550,121	$ 12,025,496	$ 12,737,095

Movement of property, plant and equipment for the six months ended June 30, 2017 and 2016 were as follows:

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

	2016				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Cost					
Balance, beginning of period	$ 6,470,507	$ 7,361,368	$ 13,754,405	$ 2,507,338	$ 30,093,618
Additions	-	252,230	95,792	58,853	406,875
Disposals	(1,771,623)	-	(7,013)	(145,368)	(1,924,004)
Reclassification	6,587	(201,433)	(11,100)	(1,173)	(207,119)
Effect of foreign currency exchange differences	(18,144)	(65,884)	(115,082)	(39,027)	(238,137)
Balance, end of period	4,687,327	7,346,281	13,717,002	2,380,623	28,131,233
Accumulated depreciation					
Balance, beginning of period	-	1,590,155	10,912,770	1,634,316	14,137,241
Depreciation expenses	-	133,812	676,284	175,531	985,627
Disposals	-	-	(6,109)	(115,911)	(122,020)
Reclassification	-	-	(6,443)	(547)	(6,990)
Effect of foreign currency exchange differences	-	(6,969)	(90,716)	(26,282)	(123,967)
Balance, end of period	-	1,716,998	11,485,786	1,667,107	14,869,891
Accumulated impairment					
Balance, beginning of period	-	-	520,963	3,284	524,247
Impairment loss	-	-	-	-	-
Balance, end of period	-	-	520,963	3,284	524,247
Net book value, end of period	$ 4,687,327	$ 5,629,283	$ 1,710,253	$ 710,232	$ 12,737,095

In order to reduce the cost and to improve the operational efficiency, the Company had sold part of the land in Taoyuan in May 2016 for NT$2,880,000 thousand and the net gain on disposal of the property was NT$1,108,377 thousand.

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 six months ended June 30, 2017 and 2016.

18. INVESTMENT PROPERTIES, NET

Movement of investment properties, net for the six months ended June 30, 2017 and 2016 were as follows:

	2017	2016
Cost		
Balance, beginning of period	$ 1,829,827	$ 1,992,798
Eliminations	(1,504)	-
Reclassification	(1,791,715)	-
Effect of foreign currency exchange differences	(36,608)	(73,509)
Balance, end of period	-	1,919,289
Accumulated depreciation		
Balance, beginning of period	302,826	284,309
Depreciation expense	5,936	24,011
Eliminations	(1,504)	-
Reclassification	(301,200)	-
Effect of foreign currency exchange differences	(6,058)	(11,306)
Balance, end of period	-	297,014
Net book value, end of period	$ -	$ 1,622,275

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 June 30, 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

	June 30, 2017	December 31, 2016	June 30, 2016
Carrying amounts			
Patents	$ 2,770,664	$ 3,547,151	$ 4,154,660
Other intangible assets	209,566	331,205	484,441
	$ 2,980,230	$ 3,878,356	$ 4,639,101

Movements of intangible assets for the six months ended June 30, 2017 and 2016 were as follows:

	2017			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of period	$ 12,197,140	$ 684,668	$ 1,840,154	$ 14,721,962
Additions	-	-	-	-
Eliminations	-	-	(7,093)	(7,093)
Effect of foreign currency exchange differences	(551,250)	(29,064)	(33,016)	(613,330)
Balance, end of period	11,645,890	655,604	1,800,045	14,101,539
Accumulated amortization				
Balance, beginning of period	8,538,904	-	1,333,403	9,872,307
Amortization expenses	580,203	-	120,459	700,662
Eliminations	-	-	(7,093)	(7,093)
Effect of foreign currency exchange differences	(354,966)	-	(21,840)	(376,806)
Balance, end of period	8,764,141	-	1,424,929	10,189,070
Accumulated impairment				
Balance, beginning of period	111,085	684,668	175,546	971,299
Effect of foreign currency exchange differences	-	(29,064)	(9,996)	(39,060)
Balance, end of period	111,085	655,604	165,550	932,239
Net book value, end of period	$ 2,770,664	$ -	$ 209,566	$ 2,980,230

	2016			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of period	$ 12,434,890	$ 697,203	$ 1,785,537	$ 14,917,630
Additions	-	-	75,456	75,456
Effect of foreign currency exchange differences	(234,301)	(12,353)	(16,559)	(263,213)
Balance, end of period	12,200,589	684,850	1,844,434	14,729,873
Accumulated amortization				
Balance, beginning of period	7,336,883	-	1,031,158	8,368,041
Amortization expenses	728,707	-	163,119	891,826
Effect of foreign currency exchange differences	(130,746)	-	(9,892)	(140,638)
Balance, end of period	7,934,844	-	1,184,385	9,119,229

(Continued)

	2016			
	Patents	Goodwill	Other Intangible Assets	Total
Accumulated impairment				
Balance, beginning of period	$ 111,085	$ 697,203	$ 179,857	$ 988,145
Effect of foreign currency exchange differences	-	(12,353)	(4,249)	(16,602)
Balance, end of period	111,085	684,850	175,608	971,543
Net book value, end of period	$ 4,154,660	$ -	$ 484,441	$ 4,639,101

(Concluded)

The Company owns patents of graphics technologies. As of June 30, 2017, December 31, 2016 and June 30, 2016, the carrying amounts of such patents were NT$2,757,900 thousand, NT$3,529,477 thousand and NT$4,136,003 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

20. SHORT-TERM BORROWINGS

	June 30, 2017	December 31, 2016	June 30, 2016
Unsecured borrowings			
Line of credit borrowings	$ 8,550,000	$ -	$ -

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

21. NOTE AND TRADE PAYABLES

	June 30, 2017	December 31, 2016	June 30, 2016
Notes payable	$ 612	$ 580	$ 510
Trade payables	17,798,676	26,247,148	27,243,761
	$ 17,799,288	$ 26,247,728	$ 27,244,271

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

	June 30, 2017	December 31, 2016	June 30, 2016
Other payables			
Accrued expenses	$ 12,062,191	$ 18,254,905	$ 20,469,658
Payables for purchase of equipment	71,100	93,829	140,845
	$ 12,133,291	$ 18,348,734	$ 20,610,503
Other liabilities			
Advance receipts (Note 14)	$ 3,364,995	$ 2,397,707	$ 3,468,554
Agency receipts	146,687	434,266	296,797
Others	122,489	172,459	154,499
	$ 3,634,171	$ 3,004,432	$ 3,919,850
Current	$ 3,520,051	$ 3,004,432	$ 3,112,825
Non-current	114,120	-	807,025
	$ 3,634,171	$ 3,004,432	$ 3,919,850

Accrued Expenses

	June 30, 2017	December 31, 2016	June 30, 2016
Marketing	$ 6,704,655	$ 9,791,579	$ 11,682,549
Materials and molding expenses	1,823,015	3,077,500	3,112,060
Salaries and bonuses	1,597,278	2,029,695	2,128,555
Services	863,554	1,196,062	1,289,191
Import, export and freight	229,968	651,893	811,521
Insurance	115,855	137,183	189,013
Repairs, maintenance and sundry purchase	99,008	98,773	69,091
Others	628,858	1,272,220	1,187,678
	$ 12,062,191	$ 18,254,905	$ 20,469,658

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

23. PROVISIONS

	June 30, 2017	December 31, 2016	June 30, 2016
Warranties	$ 2,770,408	$ 3,010,969	$ 4,675,286
Provisions for contingent loss on purchase orders	238,191	373,342	546,469
	$ 3,008,599	$ 3,384,311	$ 5,221,755

Movement of provisions for the six months ended June 30, 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)	1,392,287	(106,164)	1,286,123
Usage	(1,618,406)	(28,987)	(1,647,393)
Effect of foreign currency exchange differences	(14,442)	-	(14,442)
Balance, end of period	$ 2,770,408	$ 238,191	$ 3,008,599

	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)	1,950,336	(104,855)	1,845,481
Usage	(2,572,053)	(26,569)	(2,598,622)
Effect of foreign currency exchange differences	(17,362)	-	(17,362)
Balance, end of period	$ 4,675,286	$ 546,469	$ 5,221,755

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

	June 30, 2017	**December 31, 2016**	**June 30, 2016**
Numbers of shares authorized (in thousands of shares)	1,000,000	1,000,000	1,000,000
Shares authorized	$ 10,000,000	$ 10,000,000	$ 10,000,000
Number of shares issued and fully paid (in thousands of shares)	821,795	822,009	827,419
Shares issued	$ 8,217,952	$ 8,220,087	$ 8,274,191

In February and May 2016, HTC retired 118 thousand and 223 thousand restricted shares for employees amounting to NT$1,180 thousand and NT$2,224 thousand, respectively. In February 2016, HTC retired 4,110 thousand treasury shares amounting to NT$41,100 thousand. As a result, HTC's issued and outstanding common stock as of June 30, 2016 decreased to NT$8,274,191 thousand, divided into 827,419 thousand ordinary shares at NT$10 par value. Every ordinary share carries one vote per share and a right to dividends.

In March and May 2017, HTC retired 105 thousand and 109 thousand restricted shares for employees amounting to NT$1,045 thousand and NT$1,090 thousand, respectively. As a result, HTC's issued and outstanding common stock as of June 30, 2017 decreased to NT$8,217,952 thousand, divided into 821,795 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 June 30, 2017, there were 5,694 thousand units of GDRs redeemed, representing 22,775 thousand ordinary shares, and the outstanding GDRs represented 13,285 thousand ordinary shares or 1.62 % of HTC's outstanding ordinary shares.

Capital Surplus

	June 30, 2017	December 31, 2016	June 30, 2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital			
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	136,759	84,462	67,436
May not be used for any purpose			
Arising from employee share options	614,548	645,111	616,134
Arising from employee restricted shares	742,692	740,557	592,815
	$ 15,638,510	$ 15,614,641	$ 15,542,083

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 a. to d. above plus any unappropriated retained earnings of previous years based on the dividend policy set forth in the Article and propose such allocation ratio at the shareholders' meeting.

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

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

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

The loss off-setting for 2016 and 2015 had been resolved in the shareholders' meeting on June 15, 2017 and June 24, 2016, respectively.

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

	June 30, 2017	December 31, 2016	June 30, 2016
Exchange differences on translating foreign operations	$ (2,146,617)	$ (781,298)	$ 540,026
Unrealized losses on available-for-sale financial assets	(76,173)	(167,082)	(143,129)
Effective portion of gains and losses on hedging instruments in a cash flow hedge	(11,668)	-	-
Unearned employee benefit	(170,438)	(253,922)	(241,429)
	$ (2,404,896)	$ (1,202,302)	$ 155,468

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 Six Months Ended June 30	
	2017	2016
Balance, beginning of period	$ (253,922)	$ (371,369)
Share-based payment expenses recognized	83,484	129,940
Balance, end of period	$ (170,438)	$ (241,429)

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.

On May 14, 2016, the Company's Board of Directors passed a resolution to buy back 40,000 thousand company shares from the open market. The repurchase period was between May 16, 2016 and July 15, 2016, and the repurchase price ranged from NT$47 to NT$70 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The Company had bought back 7,050 thousand shares for NT$436,869 thousand up to June 30, 2016. 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 six months ended June 30, 2016				
To maintain the Company's credibility and stockholders' interest	4,110	7,050	4,110	7,050

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 June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Sale of goods	$ 15,866,795	$ 18,299,450	$ 30,134,233	$ 32,621,492
Other operating income	269,114	562,674	532,499	1,061,614
	$ 16,135,909	$ 18,862,124	$ 30,666,732	$ 33,683,106

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

a. Other income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Interest income				
Bank deposits	$ 67,599	$ 51,002	$ 128,627	$ 114,773
Other receivables	-	19,363	-	39,041
Other	8,190	32,595	22,343	72,373
	75,789	102,960	150,970	226,187
Dividends	8,442	28,024	15,862	106,477
Others	46,346	26,672	235,934	62,971
	$ 130,577	$ 157,656	$ 402,766	$ 395,635

b. Other gains and losses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Net gain on disposal of non-current assets held for sale (Note 14)	$ -	$ -	$ -	$ 2,091,594
Net (loss) gain on the disposal of property, plant and equipment	(4,801)	1,105,321	(4,930)	1,103,144
Net gain on sale of financial assets measured at cost	24,305	-	24,305	-
Net foreign exchange (loss) gain	(6,614)	144,728	81,358	183,877
Net gain (loss) arising from financial instruments classified as held for trading	130,701	(90,034)	130,701	(90,034)
Ineffective portion of cash flow hedge (Note 8)	2,766	1,638	3,538	2,056
Other loss	(2,030)	(29,161)	(9,114)	(56,377)
	$ 144,327	$ 1,132,492	$ 225,858	$ 3,234,260

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

c. Impairment (reversal gain) loss on financial assets

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Trade receivables	$ (362,870)	$ (299,951)	$ (362,870)	$ (299,951)
Other receivables	-	300,000	-	300,000
	$ (362,870)	$ 49	$ (362,870)	$ 49

d. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Property, plant and equipment	$ 256,151	$ 477,544	$ 525,978	$ 985,627
Investment properties	-	11,563	5,936	24,011
Intangible assets	345,292	386,722	700,662	891,826
	$ 601,443	$ 875,829	$ 1,232,576	$ 1,901,464
An analysis of depreciation - by function				
Operating costs	$ 72,827	$ 280,754	$ 146,583	$ 521,568
Operating expenses	183,324	196,790	379,395	464,059
Other losses	-	11,563	5,936	24,011
	$ 256,151	$ 489,107	$ 531,914	$ 1,009,638
An analysis of amortization - by function				
Operating costs	$ 564	$ 754	$ 1,253	$ 1,527
Operating expenses	344,728	385,968	699,409	890,299
	$ 345,292	$ 386,722	$ 700,662	$ 891,826

e. Employee benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Short-term benefits	$ 2,766,260	$ 2,966,091	$ 5,613,717	$ 5,962,525
Post-employment benefits				
Defined contribution plans	105,402	118,857	214,638	244,087
Defined benefit plans	1,817	1,812	3,631	3,624
	107,219	120,669	218,269	247,711

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Share-based payments (Note 29)				
Equity-settled share-based payments	$ 52,900	$ 116,888	$ 105,218	$ 233,775
Total employee benefits expense	$ 2,926,379	$ 3,203,648	$ 5,937,204	$ 6,444,011
An analysis of employee benefits expense - by function				
Operating costs	$ 567,715	$ 740,709	$ 1,251,809	$ 1,450,594
Operating expenses	2,358,664	2,462,939	4,685,395	4,993,417
	$ 2,926,379	$ 3,203,648	$ 5,937,204	$ 6,444,011

(Concluded)

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 six months ended June 30, 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".

f. Impairment loss on non-financial assets

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Inventories (included in operating costs)	$ 852,107	$ 552,478	$ 2,238,027	$ 1,024,072

g. Gain or loss on foreign currency exchange

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Foreign exchange gain	$ 1,680,084	$ 1,862,091	$ 3,865,921	$ 2,799,192
Foreign exchange loss	(1,686,698)	(1,717,363)	(3,784,563)	(2,615,315)

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Valuation gain (loss) arising from financial instruments classified as held for trading	$ 130,701	$ (90,034)	$ 130,701	$ (90,034)
Ineffective portion of cash flow hedge	2,766	1,638	3,538	2,056
	$ 126,853	$ 56,332	$ 215,597	$ 95,899

(Concluded)

27. INCOME TAXES RELATING TO CONTINUING OPERATIONS

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Current tax				
In respect of the current period	$ (39,452)	$ (72,057)	$ (87,367)	$ (139,173)
Land value increment	-	(106,991)	-	(226,333)
Adjustments for prior periods	60,000	-	60,000	-
	20,548	(179,048)	(27,367)	(365,506)
Deferred tax				
In respect of the current period	(11,084)	71,587	45,026	137,559
Income tax benefit (expense) recognized in profit or loss	$ 9,464	$ (107,461)	$ 17,659	$ (227,947)

b. Integrated income tax

The imputation credit account (“ICA”) information as of June 30, 2017, December 31, 2016 and June 30, 2016, were as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Unappropriated earnings generated on and after January 1, 1998	$ 6,858,309	$ 10,841,425	$ 16,018,257
Balance of ICA	$ 8,196,519	$ 8,196,519	$ 8,196,056

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 June 30		For the Six Months Ended June 30	
	2017	**2016**	**2017**	**2016**
Basic loss per share	$ (2.37)	$ (3.71)	$ (4.85)	$ (6.87)

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 June 30		For the Six Months Ended June 30	
	2017	**2016**	**2017**	**2016**
Loss for the period attributable to owners of the parent	$ (1,950,571)	$ (3,058,882)	$ (3,983,116)	$ (5,675,329)

Shares

Unit: In Thousands of Shares

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	**2016**	**2017**	**2016**
Weighted average number of ordinary shares in computation of basic loss per share	821,818	824,182	821,879	825,925

Since the exercise price of the employee share options issued by the Company exceeded the average market price of the shares during April 1, 2017 to June 30, 2017 and 2016, and the six months ended June 30, 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 Six Months Ended June 30			
	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	(1,902)		(1,746)	
Balance, end of period	18,170	136.55	23,218	137.04
Options exercisable, end of period	13,257		5,495	

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

	June 30, 2017	December 31, 2016	June 30, 2016
Range of exercise price (NT$)	$54.5-$149	$54.5-$149	$54.5-$149
Weighted-average remaining contractual life (years)	5.80 years	6.30 years	6.80 years

Options granted in August 2015, October 2014 and November 2013 were priced using the trinomial option pricing model and the inputs to the model 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. For the 2016 and the six months ended June 30, 2017, HTC retired 1,358 thousand and 214 thousand restricted shares for employees amounting to NT$13,578 thousand and NT$2,135 thousand, respectively. As a result, the numbers of the HTC's issued and outstanding employee restricted shares as of June 30, 2017 was 6,328 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$105,218 thousand and NT$233,775 thousand for the six months ended June 30, 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

June 30, 2017

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

December 31, 2016

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

June 30, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 70,238	$ -	$ 70,238

(Continued)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 107	$ -	$ -	$ 107
Overseas listed stocks - equity investments	222,914	-	-	222,914
	$ 223,021	$ -	$ -	$ 223,021
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 160,272	$ -	$ 160,272

(Concluded)

There were no transfers between Levels 1 and 2 for the six months ended June 30, 2017 and 2016.

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

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

Categories of Financial Instruments

	June 30, 2017	December 31, 2016	June 30, 2016
Financial assets			
FVTPL			
Held for trading (Note 1)	$ 311,935	$ 143,642	$ 70,238
Loans and receivables (Note 2)	43,528,837	53,495,584	58,746,118
Available-for-sale financial assets (Note 3)	3,458,441	3,563,166	3,610,357
Financial liabilities			
FVTPL			
Held for trading	78,069	133,420	160,272
Derivative instruments in designated hedge accounting relationships	8,130	-	-
Amortized cost (Note 4)	38,635,399	45,052,834	48,179,354

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

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

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

Note 4: The balances included financial liabilities measured at amortized cost, which comprise 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 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 Stated dollars ("USD"), currency Euro ("EUR"), currency Renminbi ("RMB") and currency Japanese yen ("JPY").

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis 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**
For the six months ended June 30, 2017		
USD	$ 16,220	$ (153,926)
EUR	3,754	(4,738)
RMB	(18,217)	(108,010)
JPY	880	(1,347)
For the six months ended June 30, 2016		
USD	20,236	(161,594)
EUR	(14,728)	(19,543)
RMB	(21,103)	(136,102)
JPY	(1,834)	(1,414)

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.

June 30, 2017

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

December 31, 2016

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Non-derivative financial liabilities			
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
	$ 21,355,595	$ 23,675,133	$ 22,106

June 30, 2016

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 8,832,620	$ 18,411,651	$ -
Other payables	11,195,723	9,414,780	-
Other current liabilities	234,441	62,356	-
Guarantee deposits received	-	-	27,783
	$ 20,262,784	$ 27,888,787	$ 27,783

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.

June 30, 2017

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Net settled			
Forward exchange contracts	$ 74,113	$ -	$ -
Gross settled			
Forward exchange contracts			
Inflows	$ 16,756,828	$ -	$ -
Outflows	(16,697,318)	-	-
	$ (59,510)	$ -	$ -

December 31, 2016

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

June 30, 2016

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
Net settled			
Forward exchange contracts	$ (15,500)	$ -	$ -
Gross settled			
Forward exchange contracts			
Inflows	$ 18,803,181	$ -	$ -
Outflows	(18,856,534)	-	-
	$ (53,353)	$ -	$ -

3) Bank credit limit

	June 30, 2017	December 31, 2016	June 30, 2016
Unsecured bank general credit limit			
Amount used	$ 8,843,904	$ 710,857	$ 986,896
Amount unused	11,397,616	22,227,369	27,931,107
	$ 20,241,520	$ 22,938,226	$ 28,918,003

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

Related-party	Relationship with the Company
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 June 30		For the Six Months Ended June 30	
	2017	2016	2017	2016
Joint venture	$ -	$ -	$ -	$ 28,955
Employees' Welfare Committee	-	262	-	457
Other related parties	1,152	3,004	5,967	6,266
	$ 1,152	$ 3,266	$ 5,967	$ 35,678

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

	June 30, 2017	December 31, 2016	June 30, 2016
Other related parties	$ 20	$ 15,720	$ 183

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 six months ended June 30, 2017 and 2016 for the amounts owed by related parties.

Purchase

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	**2016**	**2017**	**2016**
Other related parties	$ 116	$ -	$ 2,392	$ -

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:

	June 30, 2017	December 31, 2016	June 30, 2016
Other related parties	$ 978	$ 1,866	$ -

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

Compensation of Key Management Personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	**2016**	**2017**	**2016**
Short-term benefits	$ 22,300	$ 32,065	$ 44,091	$ 161,290
Post-employment benefits	412	242	840	655
Termination benefits	-	-	-	17,583
Share-based payments	12,715	19,614	25,290	39,228
	$ 35,427	$ 51,921	$ 70,221	$ 218,756

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$2,075 thousand for the six months ended June 30, 2017.

b. Other related parties provide selling and marketing service to the Company. The selling and marketing service expenses was NT$4,000 and NT$2,345 thousand for the six months ended June 30, 2017 and 2016, respectively.

33. PLEDGED ASSETS

As of June 30, 2017, December 31, 2016 and June 30, 2016, the time of deposits amounting to NT$152,759 thousand, NT$113,528 thousand and NT$100,690 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 infringed and only some old products without the alternative solution infringed the United Kingdom part of European patent No. 1841268 (EP '268 patent). The EP '268 patent was held to be valid by European Patent Office on July 18, 2017. The next hearing has not been scheduled by the courts yet.

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

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

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

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:

	June 30, 2017		December 31, 2016		June 30, 2016	
	Foreign Currencies	**Exchange Rate**	**Foreign Currencies**	**Exchange Rate**	**Foreign Currencies**	**Exchange Rate**
Financial assets						
Monetary items						
USD	$ 1,701,038	30.43	$ 1,914,574	32.27	$ 1,858,748	32.28
EUR	51,046	34.73	101,434	33.91	138,621	35.88
JPY	5,355,379	0.2716	2,711,104	0.2756	5,667,426	0.3143
RMB	1,321,780	4.49	1,208,051	4.62	1,038,933	4.85
Non-monetary items						
USD	84,522	30.43	84,259	32.27	84,984	32.28
RMB	669	4.49	167	4.62	-	-
Investments accounted for by the equity method						
USD	14,392	30.43	16,111	32.27	6,154	32.28
RMB	1,611	4.49	2,500	4.62	-	-
Financial liabilities						
Monetary items						
USD	1,260,345	30.43	1,445,356	32.27	1,363,267	32.28
EUR	47,266	34.73	93,533	33.91	69,007	35.88
JPY	8,224,462	0.2716	6,745,333	0.2756	4,847,921	0.3143
RMB	225,244	4.49	212,669	4.62	250,757	4.85

For the six months ended June 30, 2017 and 2016, realized and unrealized net foreign exchange gains were NT$215,597 thousand and NT$95,899 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.