



HTC 2017 Annual Report

2017

#### HTC spokesman

**Name** Peter Shen  
**Title** Chief Financial Officer  
**Acting spokesman** Not Available  
**Tel** +886 3 3753252  
**Email** spokesman@htc.com

#### corporate headquarters

**Address**  
No. 23, Xinghua Road, Taoyuan District,  
Taoyuan City, Taiwan, R.O.C.  
**Tel** +886 3 3753252

#### taipei office

**Address**  
No. 88, Section 3, Zhongxing Road,  
Xindian District, New Taipei City 231,  
Taiwan, R.O.C.  
**Tel** +886 2 89124138

#### Address

1F, No. 6-3, Baoqiang Road,  
Xindian District, New Taipei City,  
Taiwan, R.O.C.  
**Tel** +886 2 89124138

#### stock transfer agent

**The Transfer Agency Department of  
CTBC Bank Co., Ltd**  
**Address**  
5F, 83 Chung-Ching S. Rd. Sec 1,  
Taipei, Taiwan, R.O.C  
**tel** +886 2 66365566  
**web** <https://www.ctbcbank.com>

#### auditors

**Deloitte & Touche Auditors**  
Wen-Ya Hsu and Casey Lai  
**Address**  
12th Floor, Hung Tai Financial Plaza,  
156 Min Sheng East Road. Sec 3,  
Taipei, Taiwan, R.O.C.  
**Tel** +886 2 25459988  
**Web** [www.deloitte.com.tw](http://www.deloitte.com.tw)

#### overseas stock transfer information Trading

**luxembourg stock exchange**  
**Web** [www.bourse.lu](http://www.bourse.lu)

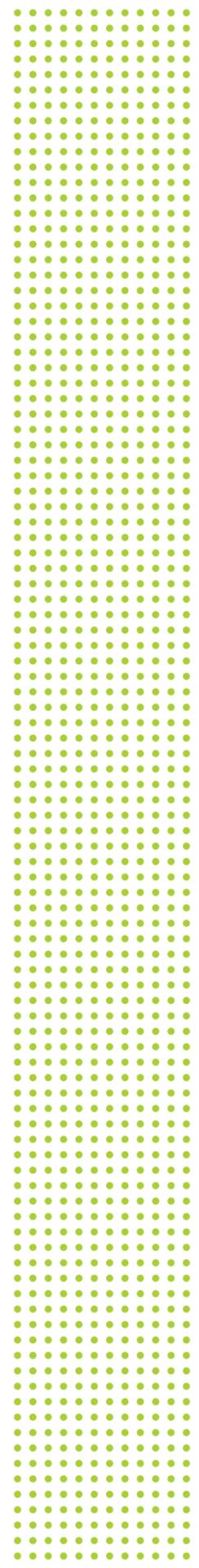
**HTC website**  
**Web** [www.htc.com](http://www.htc.com)

# TABLE OF CONTENTS

<b>1</b>	<b>Letter to HTC Shareholders</b>	p. 4	<b>5</b>	<b>Capital and shares</b>	p. 120
<b>2</b>	<b>Company profile</b>	p. 12	<b>6</b>	<b>Financial status, operating results and risk management</b>	p. 140
<b>3</b>	<b>Business operations</b>	p. 32	<b>7</b>	<b>Affiliate information and other special notes</b>	p. 154
<b>4</b>	<b>Corporate governance</b>	p. 62	<b>8</b>	<b>Financial information</b>	p. 178



# LETTER TO HTC SHAREHOLDERS





# LETTER TO HTC SHAREHOLDERS

## Dear Shareholders,

In the year that HTC celebrated its 20th anniversary, we want to express our deep appreciation towards our shareholders for your dedicated support and commitment to our pursuit of brilliance. Over the last three years, we've been working hard to position HTC for the future, focusing on delivering the innovation and technology that defines HTC and devoting the necessary resources to create great products. We produced another strong year of innovation in 2017, recording more technology firsts and consolidating our position as thought leaders across our product groups.

In September 2017, we entered a ground-breaking business cooperation agreement with Google, Inc., whereby the 'Powered by HTC' engineering and technical teams working on Google's Pixel smartphones were transferred to Google in a deal worth \$1.1 billion. Building on our decade-long strategic relationship with Google, this agreement allows us to strengthen our HTC-branded smartphone business, enabling a more focused product portfolio, greater operational efficiency and financial flexibility. It also enables HTC to continue investing in emerging frontier technologies, including VR, AR, AI, Smart IoT and Blockchain which will be vital across all of our businesses and present significant long-term growth opportunities.

This agreement also represents a substantial investment in Taiwan as a key innovation and engineering hub, and it is a true testament to the engineering and innovation powerhouse that HTC has built over the last twenty years. The teams that have been transferred to Google will continue to play a key role in building the Android ecosystem for the benefit of the whole industry.

This move, combined with the significant effort we have made in strengthening and investing in our innovation teams, streamlining our business processes and reducing our operating expenditure over the past three years, has created a solid foundation on which we can build the future of HTC.

## HTC VISION: VIVE Reality

Early in 2018, we defined a new vision for HTC, a vision to unite all teams and businesses around a single direction: VIVE Reality.

VIVE was founded three years ago on the uniting of humanity and technology to unleash the imagination. VIVE Reality describes the convergence of Virtual and Augmented Reality (VR and AR), artificial intelligence (AI), high-speed connectivity and other emerging technologies, where humans interact with virtual and augmented reality environments naturally and natively. 5G and subsequent wireless connectivity standards will usher in a whole new era of experiences that will truly revolutionize the way we live, work, and play. Light-speed data transmission and edge computing will enable access to immersive content anywhere, in real time. In this new ecosystem, smartphones will continue to play a vital role, and indeed will be the first step towards 5G for most of us, although they may take on different forms in the future as the need for device-based computing power diminishes. 5G and AI are complementary technologies for VR and AR, enabling each device to provide the most immersive experiences for consumers and enterprises.

This convergence of technologies is reflected in HTC's realigned organization, with the VIVE and smartphone businesses collectively able to leverage the technical expertise and extensive experience of the diverse, world class design, engineering and manufacturing teams within HTC. This will enable us to continue to create beautiful, considered and intelligent products that empower our customers to pursue their own brilliance.

## PRODUCT STRATEGY

### Smartphones and Connected Devices

The HTC-branded smartphone business remains a strategic business for HTC. Smartphones are with us 24 hours a day; they are our digital hub and our primary connection to friends and family. HTC has a long and distinguished history in this industry, and we continue to raise the bar for innovation.

2017 saw several industry-first smartphone innovations introduced in the new family of smartphones called the U series, which included the flagship HTC U11, the HTC U11+ and the HTC U11 life.

For many years, interactions on smartphones have centered around on-screen interaction, but the HTC U11 introduced the next dimension in touch interaction: the squeeze. HTC Edge Sense is an unprecedented, intuitive way to interact with your smartphone, allowing users to launch and operate their favorite applications with a simple squeeze of their phone. HTC Edge Sense also featured in the HTC U11+ smartphone launched later in the year.

Our camera technologies were unparalleled in 2017, with smartphones designed by our teams taking the top three scores in the independent DxOMark industry benchmark. The HTC U11 achieved the highest ever ranking for a smartphone camera at launch. At the same time, our audio technologies were further refined, with HTC USonic offering personalized audio settings and the most advanced headset for personal audio, which even included active noise cancellation.

2017 was the year that AI came to smartphones with HTC Sense Companion, with the HTC U11 introducing the world to both Google Assistant and Amazon Alexa personal assistants available at the simple utterance of their respective wake-up phrases.

Finally, there was a new design language for all U series smartphones in the form of a seamless, curved ‘liquid glass surface’, created using a specialized technology for a remarkable reflective finish in strong colors, some with a stunning dual-tone effect.

In line with HTC practice, we will continue to bring flagship technologies to the wider market smartphones, with several features of the HTC U series set to feature on mid-range phones in 2018. We were delighted to launch our latest flagship, the HTC U12+, in the first half of 2018, gaining wide media coverage and strong acclaim. We also announced Project Exodus, an innovative framework for the best crypto networks. Working with the blockchain community, Project Exodus will result in a new smartphone to power the decentralized web for users more concerned about their privacy.

### HTC VIVE Virtual Reality

The HTC VIVE has been firmly established as the industry leader in PC-based virtual reality (VR), and HTC has put considerable resources into building a thriving development environment. We are expanding the VR hardware and platform ecosystem to enable the whole industry to grow through the creation of compelling content and rich experiences. The VIVE business unit retains its four distinct business areas, covering hardware, platform, content generation, and an accelerator program.

The HTC VIVE virtual reality system saw continued sales momentum over the year, with a price reduction to spur wider access in advance of the launch of the new headset, the HTC VIVE Pro, which was revealed at the Consumer Electronics Show (CES) in January 2018 to wide acclaim, winning many ‘best in show’ awards. A full headset upgrade with greatly enhanced resolution and built-in audio as well as improved design, the HTC VIVE Pro started shipping in Q2 2018. 2017 also saw the launch in China of the VIVE Focus, the first standalone headset in the VIVE series, which has been strongly welcomed, especially by the enterprise sector.

Beyond the headset, HTC launched two other innovations serving to expand the VR ecosystem: first, the VIVE Tracker, a device that can be affixed to real-life peripheral accessories and tracked by the base stations in the same way as the controllers. The Tracker has proved popular for applications like VR Sports, where it can be affixed to a table tennis paddle or a baseball bat for that authentic feel. Second was the VIVE Wireless Adaptor, also announced at the CES show in 2018, which allows users to ‘cut the cord’ and experience VIVE PC VR untethered.

The VIVE Focus launch saw the launch of the VIVE WAVE Open Platform, which is aimed at bringing together the highly fragmented mobile VR market by creating a common platform and storefront across multiple hardware vendors, enabling easy mobile VR content development and device optimization. Numerous content developers have already built VR content optimized for VIVE Wave, with more set to join as the platform gains momentum.

The VIVEPORT VR app marketplace has grown considerably in the past year, and now hosts over 1,000 content titles globally, providing an exceptional platform for content developers to promote their titles and enable greater monetization opportunities. During 2017, VIVEPORT Subscriptions was introduced, whereby subscribers can try five titles a month, which has created a consistent and growing revenue stream as well as building customer loyalty.

Content is a critical aspect of the VR ecosystem, with the number of titles across VIVEPORT and Steam at over 3,000 by early 2018. The VIVE platform received a boost in 2017 with the publication of Triple-A games for the HTC VIVE, including major franchises such as Star Trek: Bridge Crew, Doom VFR, L.A. Noir and FallOut 4, with more set to follow in 2018. These titles deliver hundreds of hours of gameplay, bringing the original PC games to life in room-scale VR with the HTC VIVE, and it is anticipated that these popular brands will provide fresh momentum to the adoption of VR among more mainstream consumers.

VIVE Studios, the content production engine for VIVE, saw the publication of several popular titles in 2017, including Front Defense. VIVE Studios continues to enhance its in-house content design and engineering capabilities, and it invests in external projects to produce compelling content in both gaming and non-gaming fields.

The VIVE X accelerator program executed its third batch of companies in 2017, and added Tel Aviv to its Beijing, Taipei, Shenzhen and San Francisco roster of locations, with London to roll out the first European batch in 2018. Over thirty companies per batch have taken part, focused on developing VR content, applications and tools that take VR into new areas and enhance VR operations.

New initiatives launched in 2017 include:

- VIVE Arcade: 2017 saw the first wave roll-out of VR arcades globally, with VIVEPORT Arcade creating a new revenue stream for developers and arcade owners. As the number of games designed for arcades grows, HTC sees arcades as the ideal forum for a wider group of consumers to try VR with minimal outlay and experience the immersive HTC VIVE.

- VIVE Arts: a multimillion dollar fund to enable and preserve cultural heritage for the world, and to democratize creation and artistic expression in the arts. VIVE Arts addresses a diverse, global audience and contributes to the knowledge and enjoyment of our cultural heritage, both in museums and in the home. HTC VIVE has helped bring exhibitions to life in the National Palace Museum in Taipei, and the Tate Modern and Royal Academy in London, among many others.
- VR for Impact: a multimillion dollar fund to inspire innovators to create compelling content that drives awareness around the United Nations 'Sustainable Development Goals'; including experiences that make us more proactive in helping humanity solve some of the most difficult challenges facing our world today. Current content highlights global problems like deforestation, and the mass demise of honey bees; there are also applications for medical training and treatment in remote areas. In early 2018, HTC opened up this initiative to work with the World Economic Forum for wider engagement and thus greater impact.

The enterprise market continues to recognize the value of totally immersive VR in enhancing their business processes and collaboration activities, with companies both large and small around the world adopting the HTC VIVE for their strategic applications. Top-tier automotive and airline companies number among VIVE users, and there has been rapid growth in medical, healthcare and retail applications. With VR looking set to become a mainstream consumer technology in the near future, we look forward to the VIVE becoming a material contributor in HTC's portfolio.

## FINANCIAL PERFORMANCE

HTC continued its on-going drive for operating efficiency over the year, and we have stepped up those efforts following completion of the cooperation agreement with Google in early 2018, undertaking a significant realignment of smartphone business resources in order to bring operating expenditure in line with current and anticipated business needs. The consolidation of Company processes and management structure changes have clarified organizational objectives and will drive greater efficiency across the regions, enabling a stronger, clearer focus on innovation for all teams.

Over 2017, HTC earned NT\$62.1 billion in revenue, with a gross profit of NT\$1.3 billion and a gross margin of 2.16%; however, the operating margin of -28.05% led to a net income of -NT\$16.9 billion, corresponding to an earnings per share of -NT\$20.58.

While keeping a keen eye on expenditure, HTC continues to invest in key technologies that will enable the Company to leapfrog current generation product trends and drive our vision of VIVE Reality.

## CORPORATE RESPONSIBILITY

HTC takes our responsibility as a corporate citizen seriously, especially as a manufacturer, and makes every effort to conserve resources, and reduce waste and our carbon footprint.

HTC continued to work hard at further improving our energy management at our manufacturing facilities in 2017, achieving an electricity use reduction rate of up to 49.83%, compared to 42.26 % for 2016. The corresponding reduction in carbon emissions represented a greenhouse gas emission reduction of up to 50.20%, again comparing favorably to 2016's 42.69 %.

Progress was also made regarding the green fields and planted areas inside the factories, which are irrigated with recycled sewage water to avoid increasing total water consumption. This contributed to a sewage recycling rate of 73.99% in 2017, up from 72.54% the previous year.

HTC is committed to smart, sustainable growth, and we strive to maximize our contribution towards a better world.

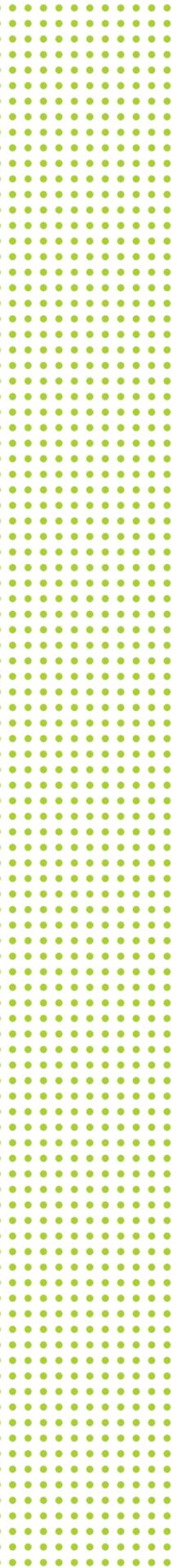
Our Pursuit of Brilliance is never-ending, and we have the right strategy, world-class talent and a heritage of innovation that will drive HTC's next stage of growth. As we look ahead, I am confident that our core strengths of innovation, engineering and system integration, combined with our strong IP portfolio and commitment to platform development, will continue to be the foundation for our success.

**HTC Corporation**  
Chairwoman and CEO





# COMPANY PROFILE





# COMPANY PROFILE

## About HTC

HTC brings brilliance to life through leading innovation in smart mobile device and experience design. Beginning with a vision to put a personal computer in the palm of our customers' hands, we have led the way in the evolution from palm PC to smartphone, and are now applying that same innovative approach to connected devices and virtual reality.

The Pursuit of Brilliance is at the heart of everything we do, inspiring best-in-class design and game-changing mobile and virtual reality experiences for consumers around the world. At HTC, the Pursuit of Brilliance is the impulse to create, to venture into the unknown with an unwavering dedication to bring innovative design to life. It pushes us every day to re-imagine new ways to connect the world, our consumers, and their pursuits in ways never before thought possible.

### An Unending Curiosity

At HTC, we go where others haven't thought to. Breaking down barriers and creating industry firsts is a large part of our history, which is why HTC has become synonymous with innovation, engineering breakthroughs, and designing the future of human communications as we continue to expand into uncharted product territories.

### An Unyielding Resilience

Strong character is at our core. Award-winning vision requires taking risks and challenging convention. From the very beginning, resilience has been at the heart of our creative spirit. To this day, we stay committed to our pursuit, believing that the greatest ideas transcend temporary recognition: they influence behavior, shape lives, and inspire new thinking.

### A Refined Approach

We hold our ideas and our products to a higher set of standards. That is why we design for performance over popularity – and our partners have taken notice. Other industry leaders come to us because they understand that we create great products with an eye for design and mind for engineering that's celebrated by the industry and customers alike.

### A Real Impact

It is our belief that technology's purpose has always been to bring humanity together to overcome and conquer difficult challenges. That is why we always design our technology to generate a real impact – to serve a greater, human purpose that every single human being can benefit from.

### A Greater Purpose

HTC takes a broader approach to serving society and making life better. We believe that we can make more of a difference looking beyond the obvious, reaching out to people and enabling them to make a difference, and in improving the way we do things.

Our strengths in design are not limited to creating great looking hardware. Our standards extend to our manufacturing processes as well. That's why our factories are among the most environmentally responsible in the world, and why our offices have earned global acclaim, setting the gold standard in energy efficiency.

We have also expanded our environmental initiatives to shape the entire customer experience. Starting from 2013, our product packaging is primarily made of fast-renewable materials such as bamboo and bagasse. That's an industry first we're particularly proud of and also our commitment to environmental sustainability.

At HTC, we do all of these things in the knowledge that we're always creating for the future. To that end, we realize that bringing the future to life ultimately rests in the hands of our youth. Through the HTC Foundation and our Summer Family Camp we provide humanitarian and social support to those most in need while also assisting in the teaching and development of a strong sense of character and social values in youth. We believe that the future is for everyone, which is why we strive to ensure that every child has the opportunity to be part of the next generation of leaders and visionaries.

This evolutionary path is a piece of the much larger journey we aim to take in the future. Since 2014, we expanded into IoT categories and launched HTC RE™ camera and unveiled UA HealthBox™ to bring an innovative approach to fitness technology. HTC VIVE™ provides users the most immersive virtual reality experience. It is important to remember what brought us to where we are now, and why we do the work we do. From our people to our products and our social and environmental initiatives, the Pursuit of Brilliance represents the guiding philosophy that has shaped and will continue to shape HTC as a global organization.



## Company History

HTC started with the goal of bringing the power of computing into the hands of people around the world. To date, our Company has been through four major transformations that have helped us reinvent ourselves and achieve new growth.

### Professional PDA Designer

Soon after beginning operations in 1997, HTC was selected by Microsoft to develop handheld products using Windows CE, the newly launched embedded operating system designed specifically for consumer electronics products. The co-founder and then President (now Director of the Board) HT Cho and then Vice President Peter Chou put together HTC's first R&D team and developed the world's first handheld personal data assistant (PDA) to run on Windows CE. This significant first step helped HTC become an important and enduring partner of Microsoft Corporation. The Compaq iPAQ, manufactured by HTC for Compaq Computer became a huge market success when launched in 2000 and firmly established HTC as a world leader in the PDA segment.

### Smartphone Leader

HTC's first major turning point came in 1999, when the Company moved into the telecommunications arena, reflecting the increasingly important role of mobile telecommunications products in the daily lives of consumers. HTC predicted that the GSM standard would spread from Europe to dominate U.S. and Japanese markets; so we visited Europe's largest telecommunications companies to discuss an innovative new approach for the industry – the development of "customized" devices for the wireless communication market. In 2002, HTC broke new ground in the industry by launching two new mobile wireless devices, the O2 XDA and Orange SPV in partnership with O2 (UK) and Orange (France) respectively. The products, designed around Microsoft's latest operating system, helped telecommunication service providers increase average revenue per user (ARPU) and earned worldwide attention.

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

## HTC Brand

The launch of the HTC brand globally in 2007 committed the Company to long-term global brand development. HTC subsequently launched the HTC Touch smartphone, placing HTC in the front and center of growing worldwide excitement over touch-centric smart phones. In 2009, HTC unveiled its new user interface, HTC Sense™, delivering a simpler and much more intuitive user experience. HTC then proceeded to introduce its competitive new lineup to the world through its ‘Quietly Brilliant’ tagline and global ‘YOU’ advertising campaign. HTC also sponsored initiatives that reflect our values, such as the Tour de France and the Wallpaper annual design awards. Each step along the way has been carefully considered to raise HTC brand awareness in all key markets.

Quietly Brilliant is deeply rooted within HTC’s corporate culture. We continue to roll out products with innovative features to satisfy the needs of different consumers, changing the way they enjoy the mobile lifestyle. With the smartphone market booming in recent years, HTC has actively recruited outstanding talent in product design, user interface, brand and sales and marketing. This talent has enabled HTC to receive global recognition, with awards including “Device Manufacturer of the Year” at Mobile World Congress in 2011, and HTC was listed in the top 100 international brands by Interbrand in the same year.

In 2014, HTC undertook to evolve its brand strategy and identified our organizational purpose: to bring brilliance to life by striving to develop innovation that fosters human connectiveness. The pursuit of brilliance is at the heart of everything we do. It is the impulse to create, to venture into the unknown with an unwavering dedication to bring innovation to life. It pushes us every day to re-imagine new ways to connect the world, our consumers, and their pursuits in ways never before thought possible.

By streamlining our communication channels, we deliver simplified and consistent brand messages to enable consumers to better understand our brand vision. Through the reinforcement of global social media and interaction with users, we establish strong social engagement and amplify the message of our connections to each other.

## Diversification into Connected Devices and Virtual Reality

In 2014, HTC began to seek new fields to apply our distinguished heritage in design, engineering and manufacturing excellence as well as innovative thinking. Starting with the field of fitness, together with our partner Under Armour®, the leading brand in the fitness space, HTC launched the UA HealthBox™, providing comprehensive holistic information to enable users to monitor and improve their performance.

Later on, partnering with Valve®, the strongest brand in PC gaming, we unveiled the HTC VIVE™ in April 2015, the first complete, room-scale virtual reality system which has earned universal media and consumer acclaim. Offering the most immersive virtual reality experiences, HTC VIVE is set to unleash human imagination from the limitations of reality. VIVE will change how we work, learn, play, communicate, entertained and believe.

Appreciating that a robust ecosystem and diverse content are the key factors to grow the VR market, we have undertaken considerable investment in software and platform in order to empower developers to create compelling VR content. HTC has founded or plays a key role in building industry alliances, such as the Asia-Pacific Virtual Reality Industry Alliance formed in April of 2016, and is a founding member of the Global VR Alliance. We also rolled out the VIVE X accelerator program in the same year to help cultivate, foster and grow the global VR ecosystem by supporting startups and providing them with education, investment and mentorship. Nevertheless, we holds various VIVE developers summit and VR eco-system conferences in recent years, to affirm HTC’s leading position in this market.

In support of the United Nations’ Sustainable Development Goals, HTC has starting a \$10 million program from January of 2017, dedicated to showing how VR can lead to positive impact and change. In early 2018, we announced a partnership with the World Economic Forum (WEF) to drive the VR/AR for Impact initiative forward. Going further, HTC will continue to design and create experiences as part of the collaborative, ongoing commitment to foster and champion the use of Virtual and Augmented Reality to educate and empower humanity as well as transforming the world.

## Product Development

For 20 years, HTC has been at the forefront of mobile innovation and delivering to consumers the technologies and experiences that have made smartphones a vital part of our everyday lives. More recently, we have been at the cutting edge of virtual reality, bringing the HTC VIVE to market as the first and still the most advanced room-scale VR experience.

While burgeoning competition in the smartphone market has led to a bewildering choice for consumers, with brands seeking to gain attention through gimmicks and over-designed products, over the last two years HTC has returned to what made HTC great: focusing on YOU, the consumer in our innovation and design. In every way, our latest smartphones are all about YOU.

## Smartphones

We remain strongly committed to our smartphone business, and our clear strategy focusing on the HTC U and Desire brand families includes a robust roadmap that creates more opportunities for targeting specific and more diverse markets around the world, as well as positioning HTC as the premium choice in the Android segment.



## HTC U11

Launched in May 2017, the HTC U11 was HTC's 2017 flagship smartphone. For many years, interactions on smartphone have circled around on-screen interaction. With the HTC U11, we wanted to create a difference in smartphone interaction. HTC U11 was the world's first smartphone with a revolutionary new squeeze interaction, HTC Edge Sense.

With a simple squeeze, HTC Edge Sense lets you easily engage with your phone in an unprecedented yet intuitive way, helping you more naturally enjoy the things you love, like taking photos, opening Facebook, or launching favorite applications. Taking photos with the main camera or the front camera has never been easier now as you can just squeeze and snap a shot.

And because Edge Sense is based on actual pressure applied to the side of the device, it can be used in nearly any condition – including while wearing gloves or in weather such as snow or rain that would normally be a challenge with capacitive buttons.

The HTC U11 features a beautiful liquid glass surface crafted using Optical Spectrum Hybrid Deposition. The seamless, curved look of the HTC U11 is achieved with 3D glass on both front and back. Moreover, the HTC U11 is water-resistant against splashes, spills or dunks.

HTC continues to impress in the camera department, achieving one of the highest ever ratings for a smartphone camera for both photo and video, as ranked by independent metric DxOMark. The multi-axis optical stabilization system and super-fast autofocus in all lighting conditions make the camera quick, pictures sharp, and videos smooth. We improved our camera and video for a more dynamic exposure range with HDR Boost without the lag, new white balance enhancement, a major reduction in noise, and excellent detail preservation.

The HTC U11 incorporates the new UltraSpeed AutoFocus with same full sensor auto-focus technology that's found in top DSLR cameras, so you can enjoy significantly faster focus speeds, with great performance.

The HTC U11 was also the first smartphone on the market to feature hands-free wake-word access to Amazon Alexa as well as Google Assistant. Alexa will respond to your needs anywhere you go, making it easy to control smart home products, ask for news, weather, music, and the 12,000-plus skills in the Alexa skills store. The HTC U11 also comes loaded with HTC Sense Companion.

HTC BoomSound Hi-Fi Edition speakers got an upgrade in the HTC U11, too. The speaker design was improved to deliver more loudness and better Dynamic Range Audio. Also, the tweeter offers an acoustic chamber that allows the highs and mids to sound richer, while below, the woofer sports a new speaker and improved magnetic circuit design for louder, clearer and deeper bass tones.

## HTC U11 life

The HTC U11 life was announced in November 2017. Building on the award-winning design and innovation of the flagship HTC U11, the HTC U11 life uniquely delivers flagship-quality features and experiences at a fraction of a flagship's price.

The HTC U11 life features our highly acclaimed, groundbreaking technology – HTC Edge Sense. With Edge Sense, taking pictures on your smartphone with one hand is easy and you can hold it just like a real camera. You can even launch your favourite apps with a simple squeeze, or call up a voice assistant. It’s fast, intuitive and easy one-handed operation.

The HTC U11 life featured a 16 megapixel camera with Phase Detection Autofocus (PDAF) for super-fast focus speeds with reduced blur; there was also HDR Boost without the lag and more dynamic exposure range, major noise reduction, excellent detail preservation and better white balance enhancement. The new front camera combined high-resolution 16 megapixel detail and our UltraPixel light sensitivity for brilliant selfies day or night. It also utilized the same powerful HDR Boost and noise reduction as the main camera.

The HTC U11 life’s design is a continuation of our liquid surface design philosophy. Inspired by the beauty and grace of glass, HTC U11 life incorporates an acrylic glass back surface that’s pleasing to the eye. The phone is crafted to impress using Optical Spectrum Hybrid Deposition. By layering highly-refractive precious minerals across the phone’s back cover, we created stunningly vivid colors that transform light with every movement.

The HTC U11 life is powered by the latest Qualcomm® Snapdragon™ 630 mobile platform, delivering performance one would expect from a top-notch mobile processor. The HTC U11 life is also our very first Android One device, delivering the best Android experience ever, and is also the first Android One phone to launch with Android Oreo.

## HTC U11+

The HTC U11+ was announced in November 2017 in Taipei, Taiwan with enhanced HTC Edge Sense technology, a more eye-catching display and an upgrade to the battery for more durability. This is also the first boutique-grade translucent 3D glass design smartphone in the market.

The HTC U11+ features a large 6-inch screen built at a ratio of 18:9. The narrow and long physique is designed for ergonomics. The grip feels comfortable and the width is even narrower than the usual 5.5 inches. Therefore, the screen can be easily operated with one hand. HTC U11+ is equipped with Qualcomm® Snapdragon 835 chipset and supports HDR10, providing perfect picture quality with rich and vivid images. The display supports DCI-P3 wide colour range, beautifully displaying saturated and diverse colors, making the smartphone the best device for watching movies or enjoying games.

The HTC U11+ is equipped with a 3930mAh battery, which is 30% higher capacity than the previous generation smartphone. With Quick Charge 3.0 fast charging technology support, the smartphone can be fully charged in a short time. The large screen of the HTC U11+ plus large power allows users to spend a full day enjoying every bit of the smartphone.

Continuing the revolutionary innovation of HTC U11, the Edge Sense technology on HTC U11+ has evolved. With a simple grip, you can start the camera, call a voice assistant or open any application. Edge Sense is now available for most applications in the Google Play Store. Users can set their own grip gestures in the app and customize features such as zooming in on the map or playing and pausing music. The upgraded Edge Sense adds Edge Launcher customized for easy and fast access to your favorite apps, contacts, and quick settings, and can be triggered on either the left or right side of the screen with much ease.

The HTC U11+ is equipped one of the most powerful cameras on the market. A 12 million-pixel UltraPixel 3 camera with built-in F1.7 large aperture and electronic dual anti-shake system allows the camera to operate quickly and accurately, delivering a sharp and clear photo every time. The UltraSpeed autofocus function is similar to that of high-end digital single-lens reflex camera, allowing users to experience unprecedented focusing speed when taking photos. The new 8 megapixel front lens is equipped with the same HDR enhancement and noise cancellation technology as the main camera, allowing it to take beautiful self-portrait shots even in dimly lit areas.

The HTC U11+ has a masterful design, inside and out. It is visually stunning with an all-new translucent glass back, enabling users to admire the inner beauty through elegant translucent glass and a unique color gradient that adds a mysterious depth and an expression of true craftsmanship. The beautifully molded liquid glass surface and tri-axis curves are not only attractive, they are also designed to give you a more comfortable hold and a secure grip. The colour family was chosen to explore more exquisite glass finishes. The process combines layers of highly-refractive minerals to create colors that reflect and transform light.

Everything in this phone is devoted to giving you the highest performance – greater water resistance, one of our biggest batteries, and the newest processor to make sure everything is fast and seamless.

## HTC U11 EYES

The HTC U11 EYES was announced in January 2018 in Taipei, Taiwan. HTC U11 EYES inherited from the HTC U11 concept of design and innovation, creating a combination of outstanding performance and beautiful appearance. U11 series is the first smartphone to come equipped with dual front camera and face recognition unlock function. The HTC U11 EYES is equipped with a flagship main camera with a new dual-camera lens on the front, a state-of-the-art 6-inch 18:9 aspect ratio large screen, with the latest facial recognition for easy unlocking of the phone.

HTC U11 EYES is HTC’s first smartphone equipped with dual front camera, providing HDR enhancement, instant depth preview, 10 full-range beauty modes and 3 excellent self-portrait functions. HTC U11 EYES also significantly enhances the quality of cameras and videos. Even in low-light environments, the camera can capture images with ease. You can also use the new Stickers feature to instantly add special effects and funny stickers to add a personal touch to your photos and share them with friends and family.

In addition to providing a better self-portrait experience, the HTC U11 EYES uses the dual front-mounted cameras for facial recognition and unlocking to provide an easier and more convenient unlocking experience. With HTC Edge Sense, not only can you access your personal gestures and shortcuts through Edge Launcher, but you can also use it to wake up the smartphone. With HTC Edge Sense, you can quickly activate face recognition and unlock the phone by gently pressing and holding the side of the phone, allowing users to easily unlock their phone just by looking at the camera.

The HTC U11 EYES is equipped with the same professionally affirmed 12 million pixel camera found on the flagship HTC U11. The amazing camera comes with UltraPixel 3 and UltraSpeed autofocus technology, combined with OIS and EIS for sharp and clear photos and videos. HDR enhancement features zero delay and white balance enhancement through the camera, dramatically reducing noise, and excellent detail retention to capture photos and videos with a wider dynamic exposure range.

With up to 3930mAh battery, the HTC U11 EYEs not only allows you to experience 4K video playback and a complete mobile entertainment experience, but also provide a longer use and standby time, maintaining an industry leading battery performance. HTC U11 EYEs is also equipped with IP67 waterproof and dustproof capabilities, providing a complete experience even in wet weather conditions.

## HTC Desire 12 and HTC Desire 12+

The HTC Desire 12 and HTC Desire 12+ were announced in March 2018 in Taipei, Taiwan. HTC Desire 12+ boasts our biggest 6” display in the Desire series, and along with a 5.5” display on the HTC Desire 12, fits elegantly into users’ hands. The modern and sleek design exhibits the beauty of the U series with the iconic liquid surface wrapped around the most compact and lightweight 18:9 phones we have ever made.

Capture beautiful and vivid photographs, day or night, with the 13-megapixel main camera on the HTC Desire 12 and HTC Desire 12+, and the Phase Detection Autofocus will ensure clear details even if the subject is on the move. The dual cameras on HTC Desire 12+ capture multiple focal points simultaneously allowing the photographs to be refocus after they are taken or add a bokeh effect. Bokeh mode delivers sharp foregrounds and naturally blurred backgrounds for more artistic photography.

The large F2.0 aperture in the front camera of the HTC Desire 12+ lets in more light for accurate details in low light settings. Get clear and well-lit selfies thanks to a front-facing LED flash or enjoy the soft-tone selfie light for a natural glow in any environment.

HTC Desire 12 and HTC Desire 12+ both come with HTC Sense Companion, an AI assistant that optimizes the phone’s performance and helps keep users organized in their daily lives.

Paying tribute to the HTC U11 series of liquid surface heritage, HTC Desire 12 and HTC Desire 12+ add a durable acrylic glass on the back-cover surface resulting with a new streamlined look. The seamless frame and beautifully curved edges have a luxurious feel, and the dynamic colors add to the user own unique style.

HTC is firmly committed to innovation aimed at improving and simplifying the user experience, and seeks to enhance these innovations in subsequent generations of smartphones in order to bring leading-edge smart technologies such as HTC Edge Sense to more consumers around the world.

## Virtual Reality

### VIVE Pro

Launched at CES 2018 and shipping in Q2 2018, the VIVE Pro is a new head-mounted display (HMD) upgrade from VIVE, built for VR enthusiasts and enterprise users who want the best display and audio for their VR experiences. The VIVE Pro includes dual-OLED displays for a crisp picture resolution of 2880 x 1660 combined, a 78% increase in resolution over the current HTC VIVE™ HMD. This premium resolution enhances immersion for VR enthusiasts,

and the improved clarity means text, graphics and overall experience all come into sharper view. The VIVE Pro also features integrated, high-performance headphones with a built-in amplifier to offer a heightened sense of presence and an overall richer sound. The VIVE Pro’s new headstrap was built with enhanced ergonomics and comfort, including a sizing dial for a more balanced headset that decreases weight on the front of the headset. Additional improvements include dual microphones with active noise cancellation and dual front-facing cameras designed to empower developer creativity.

### VIVE Wireless Adaptor

Also announced at CES 2018, the VIVE Wireless Adaptor is the first to market with a truly wireless VR headset integration for both VIVE and VIVE Pro headsets. The VIVE Wireless Adaptor offers a premium VR wireless experience that operates in the interference-free 60Ghz band, which means lower latency and better performance.

### VIVEPORT™

VIVEPORT is the premier dedicated marketplace for VR apps. Building on the fast growth and success of great VR games, VIVEPORT features immersive experiences across additional categories that allow consumers to discover, create, connect, watch and shop in the VR world. VIVEPORT’s mission is to democratize access to the world’s most diverse selection of immersive experiences by empowering all content creators to reach and engage the fast-growing global VR audience.

VIVEPORT features a wide range of VR experiences across education, design, art, social, video, music, sports, health, fashion, travel, news, shopping, creativity tools, and more. The VIVEPORT store is available in VIVE headsets, web browsers, and as a PC and mobile app. Together with the global community of content creators and developers, VIVEPORT provides all customers with a unique and fast-growing selection of apps and experiences.

VIVEPORT Premieres consists of content launching first on VIVEPORT; these have included some of the most popular titles such as Everest VR, Google Spotlight Stories’ Pearl, Lifelique, Stonehenge VR, The Music Room, and many more.

### VIVE Focus

VIVE Focus is the revolutionary standalone and mobile VR device. Without the need to be attached to a PC or a phone, the VIVE Focus is designed to deliver a premium VR experience with unparalleled convenience and exceptional comfort. It can be put on and taken off in a couple of seconds, and immediately turns on when placed on the head. The VIVE Focus gives users the freedom to experience robust VR in the comfort of your home or outside..

Built upon VIVE Wave, our open VR platform and toolset that is unifying the development experience for standalone and mobile VR devices, along with VIVEPORT as its content platform, VIVE Focus enables users to enjoy the rich content library on VIVEPORT. At GDC 2018 in March, HTC VIVE announced that we are bringing VIVE Focus to the global markets later this year, and will be making VIVE Focus developer kits available to registered developers in most countries to motivate developers around the world to create the best VR content and to bring this convenient and powerful VR experience to a wider range of mass market audiences as well as commercial and enterprise users.

## Board of Directors and Supervisors



Cher Wang

HT Cho

Wen-Chi Chen

Chen-Kuo Lin

David Bruce Yoffie

Josef Felder

Jerry H.C. Chu

Shao-Lun Lee

### Board of Directors

**Cher Wang**  
Chairwoman

**Wen-Chi Chen**  
Director

**HT Cho**  
Director

**Chen-Kuo Lin**  
Independent Director  
Member of the Compensation  
Committee

**David Bruce Yoffie**  
Director

**Josef Felder**  
Independent Director

### Board of Supervisors

**Jerry H.C. Chu**  
Supervisor

**Shao-Lun Lee**  
Supervisor on behalf of  
Way-Chih Investment Co., Ltd.

## Management Team

**Cher Wang**  
Chairwoman &  
Chief Executive Officer

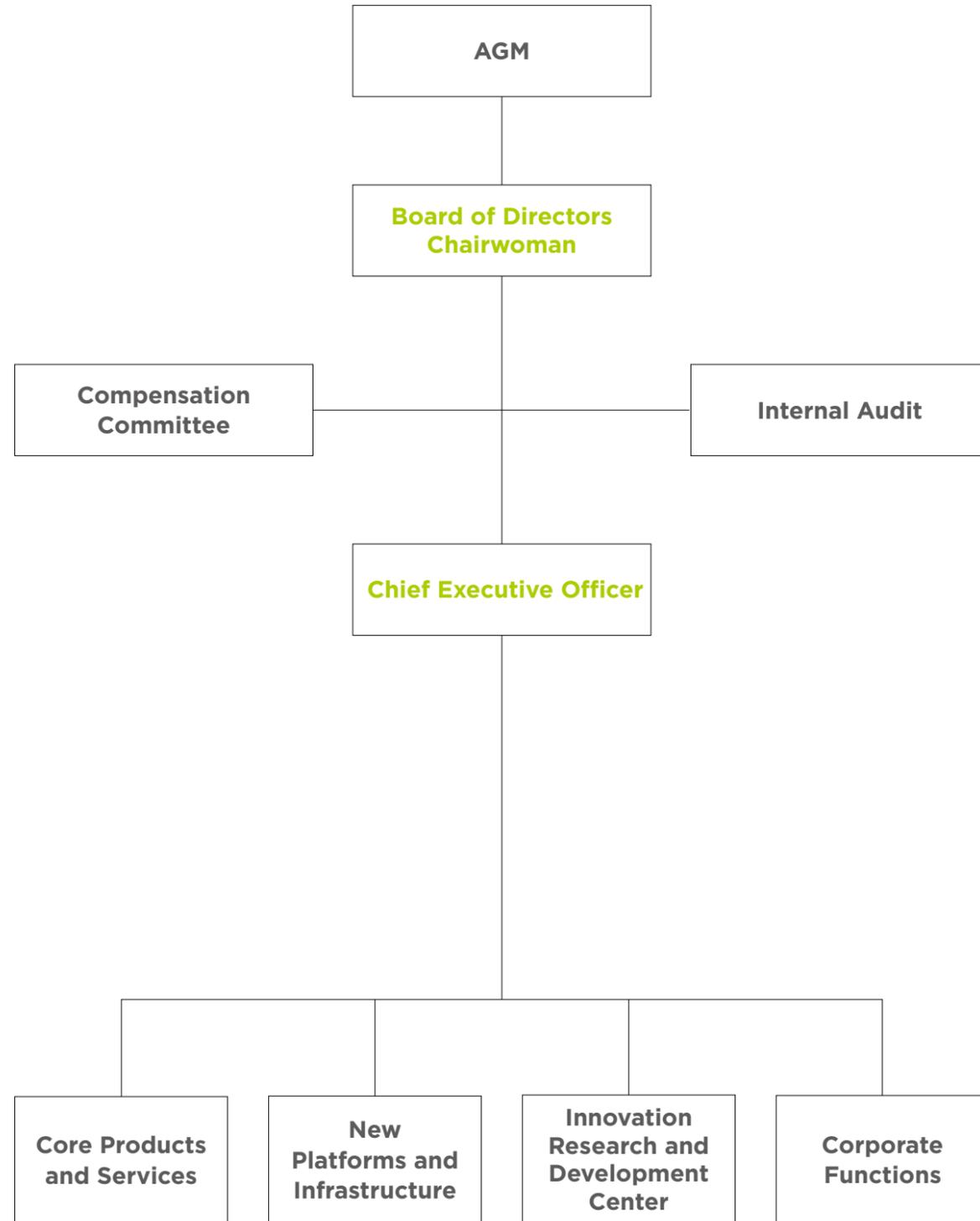
**WH Liu**  
Chief Technology Officer

**Peter Shen**  
Chief Financial Officer

**Marcus Woo**  
General Counsel

**Hsiu Lai**  
Associate Vice President

# Organization



# Organization Functions



## Worldwide Office Locations

HTC is headquartered in Taiwan with sales and service centers in Europe, the Americas and Asia to ensure our ability to service clients and enhance relationships with consumers. HTC maintains a presence in all key markets, including US, Canada, United Kingdom, Germany, France, Russia, India, Australia, China, Japan, Hong Kong, Vietnam and the United Arab Emirates (UAE).

### Key HTC Operation Centers

#### Corporate Headquarters

No. 23, Xinghua Road, Taoyuan District,  
Taoyuan City, Taiwan, R.O.C.  
Tel: +886-3-3753252  
Fax: +886-3-3753251

#### Taipei One Building

No. 88 Section 3, Zhongxing Road,  
Xindian District, New Taipei City 231,  
Taiwan, R.O.C.  
Tel: +886-2-89124138  
Fax: +886-2-89124137

#### Taipei Two Building

1F, No. 6-3, Baoqiang Road,  
Xindian District, New Taipei City 231,  
Taiwan, R.O.C.  
Tel: +886-2-89124138  
Fax: +886-2-89124137

#### HTC America, Inc.

308 Occidental Ave S, Suite 300  
Seattle, WA 98104, USA  
Tel: +1-425-679-5318  
Fax: +1-425-861-1715

#### HTC Europe Co., Ltd.

Salamanca, Wellington Street,  
Slough, Berks  
SL1 1YP, United Kingdom.  
Tel: +44(0)1753-218960  
Fax: +44(0)1753-218961/62

#### HTC Communication

##### Beijing Office

501, 5F, VIA Building, Building 7, No.1 Zhongguancun  
East Road, Hadian District, Beijing, 100084, China  
Tel: +86-10-65171108

#### HTC Communication

##### Shanghai Office

25F, West Building, 668 Beijing East Road Shanghai,  
China  
Tel: +86-21-33760100  
Fax: +86-21-53088885

#### HTC Communication Technologies (Beijing)

##### Beijing Office

South area 401, 4F, VIA Building, Building 7, No.1  
Zhongguancun East Road, Hadian District, Beijing,  
100084, China  
Tel: +86-10- 65171108

#### HTC Communication Technologies (SH)

##### Shanghai Office

F1 Building, 299 Kang Wei Road, Pudong  
New Area, Shanghai, China  
Tel: +86-21-38130008  
Fax: +86-21-50135086

## Human Resources

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

As of March 31, 2018, HTC employed 7,322 staff worldwide. 27.04 % ( 291 ) of all HTC managerial positions are held by non-Taiwanese managers. Non-Taiwanese managerial and technical staff filled 26.38 % of HTC managerial and technical positions. Women held 23.51 % of HTC's 1,076 managerial positions.

### Statistics Related to the Structure of Human Resources at HTC (excluding outsourced labor)

#### Employees by Position Type

	Mar. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Management	1,076	1,608	1,485	1,470
Specialists	1,517	2,776	2,690	3,136
Administrators	579	879	1,099	999
Technical Staff	4,150	5,128	5,655	6,837
<b>Total</b>	<b>7,322</b>	<b>10,391</b>	<b>10,929</b>	<b>12,442</b>

#### Gender, Average Age and Average Years of Service

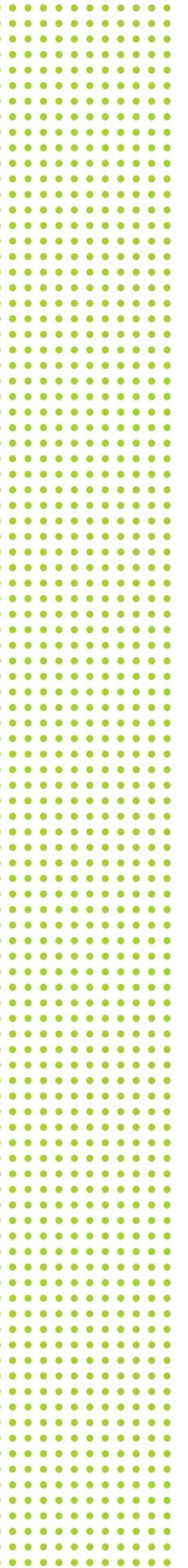
	Mar. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Male	3,377	5,151	5,531	6,524
Female	3,945	5,240	5,398	5,918
Average Age	34.02	33.31	32.71	31.98
Average of Service	5.29	5.22	4.71	4.38

#### Employees' Highest Level of Academic Achievement

	Mar. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Ph.D.	86	108	99	122
Master's	1,420	2,575	2,509	2,943
Bachelor's	2,045	3,099	3,393	4,089
Technical/Vocational	1,093	1,280	934	1,142
Other	2,678	3,329	3,994	4,146



# **BUSINESS OPERATIONS**



# BUSINESS OPERATIONS

## Business Operations

### Industry Overview - Smartphone

HTC designs and manufactures personal computing devices in various form factors, with smartphones being the primary device over the last fifteen years.

Personal computing devices have evolved over time (see Figure 1). In the future, smartphones may look different from what we are accustomed to today – inflection points in the computing industry are only clear in hindsight – but they look set to remain the hub of our digital world for the foreseeable future. The implementation of 5G will enable even greater human-machine interactions, and open up endless new possibilities with ubiquitous connections.

**Figure 1: Personal computing devices evolving over time**



HTC's upstream suppliers provide components parts, and operating systems. Downstream channels include telecom service providers, distributors and retailers (see Figure 2). HTC has continued to work closely with upstream partners to ensure the high quality of our products, and retains good relationships with traditional telecom partners and distributors around the world. HTC has also put emphasis on online as well as offline retail distribution, reflecting the global trend towards omnichannel sales of consumer goods.

**Figure 2: Industry Relationship Chart:**



### Industry Overview - Virtual Reality

HTC VIVE first started shipping in April 2016, to unprecedented media and consumer acclaim. In 2017, HTC continued to focus on technological innovation and stable growth in this nascent industry, and explored new ways to develop the virtual reality industry ecosystem.

With HTC's long-term successful experience in smartphones, VIVE has successfully ported and developed an industry relationship that is unique and leading the VR industry. Upstream suppliers provide parts for the HTC VIVE virtual reality system and various types of customized virtual reality gaming contents. Downstream channels include IT companies, telecommunications carriers, distributors and retailers.

Since 2016, many virtual reality products have come onto the market. To maintain its leadership and high quality in the increasingly competitive VR market, VIVE has maintained its dedication to product innovation and premium positioning. Through HTC's long experience of operating in the smartphone market, VIVE is dedicated to working closely with suppliers to enhance production efficiency, it also integrated virtual reality content providers in the upstream and coordinated with information channel operators, communication distributors and retailers in the downstream to make a holistic approach that starts from design and goes right through to manufacturing and content provision, and to retail, in order to build a sound and comprehensive ecosystem of the virtual reality industry.

Taking an overall view of the industry needs of virtual reality systems in 2017, virtual reality in enterprise applications were largely based on customized needs, while in the consumer market they were still centered on games and entertainment. Not having enough killer content was seen as the biggest obstacle to market development. To speed up market growth, vendors started putting resources into developing standalone virtual reality devices such as Google Daydream, Oculus Go to be released in early 2018, and VIVE Focus, which was announced at the end of 2017 in China. The main consumer applications of standalone virtual reality devices are mostly in the fields of social exchanges, light videos and network services, therefore possessing a dedicated content platform is of great importance. VIVEPORT and VIVE Wave are such content platforms, and enable greater outreach to content service partners as well as enhancing consumer product loyalty.

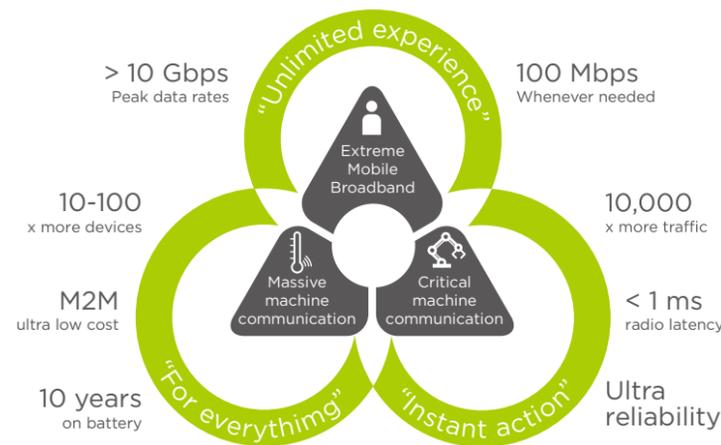
In addition to constructing a dedicated content platform, independently operated virtual reality device optimization is key to market development. Strengthening inside-out tracking technology, increasing battery life and heat dissipation are among the tasks and challenges faced in exploring new markets.

## Market Analysis - Smartphone

The most important market transition over the next few years is the introduction of 5G. 5G is the next generation of wireless access technology, promising expanded capacity, higher data rates, lower latency, higher reliability, and lower power consumption than 4G (see Figure 3). These capabilities open up opportunities for new use cases like connected cars, wireless broadband/fixed wireless etc. 5G will start to take off in Asia as Korea and Japan will build ahead of the 2018 Winter Olympics, while China is targeting 2020 commencement of services. Europe and North America will begin deployment on a similar schedule to Asia, but ramp may be slower as use cases are more selective due to limited fixed wireless deployments.

However, use cases that require significant network investment, such as autonomous cars, connected drones, media rich mobile streaming, and extreme real-time communications are not likely to be carried out until after 2025, when business models are clearer.

Figure 3: The promise of 5G



Source: Morgan Stanley

For smartphones, 5G will exist as an overlay to the existing 4G LTE network, which will act as the anchor for wireless data transmission. While use cases that require significant network investment may still be far off, with meaningful improvement in latency and reduction in power usage, smart sensors can be added onto the network.

### Use Cases:



## Market Analysis - Virtual Reality

After the launch of HTC VIVE in April of 2016, room-scale VR has become the new benchmark of virtual reality products. Soon afterwards, Oculus introduced a new Rift exclusive sensing device, and the Sony PS VR released in October also needs to be equipped with a PlayStationCamera before it can track movement. The device requirements are to track users' actions more accurately when they are experiencing virtual reality. Enabling users to enjoy industry-grade virtual reality products at a cheap price is the key to the virtual reality boom in 2016. That vendors introduced virtual reality products one after another made 2016 known as "year one of virtual reality", and made the market scale of virtual reality in that year reach more than 1.8 billion US dollars.

After the peak in 2016, the first half of 2017 saw a trend of slowed growth in the virtual reality hardware market. Oculus Rift, HTC VIVE and Sony PS VR adjusted their prices in the third quarter, increasing their popularity. In the premium VR device market, the total volume of hardware sold in 2017 is estimated to have risen from 1.42 million sets in 2016 to 3.70 million sets, and the market showed a trend of numerous vendors vying for the same consumers changing to only three major players (Sony PS VR, Oculus Rift, HTC VIVE) sharing the high end consumer market.

### Hardware as an aid, content the focus, platform the king

While the virtual reality hardware market saw slower growth in early 2017, the software market was dynamic by comparison. When the hardware for running virtual reality were established in 2016, numerous studios creating innovative VR content popped up. According to an estimate by IHS Market, the scale of the VR application market reached USD 800 million in 2017, 600 million of which was in the gaming field. Yet the major reason video game companies produced VR applications was hoping to attract huge amounts of users which in turn made the scale of overall profits not comparable with that of PC or mobile games.

After two years of promoting virtual reality, there is continued and stable growth of the number of devices. Yet there are still many obstacles to be overcome before it becomes mainstream. Among them, the most critical factor is that

VR at present remains a niche product, with pricing less of a consideration than the amount of content and expanded applications. From the perspective of content developers, there are currently too few people interested in VR, and the hardware is fragmented by different specs, so too few resources have been diverted to developing killer content. However, this started to change in later 2017, as so-called AAA studios started releasing their famous PC games in VR format, which will help the content situation.

In contrast to smartphones, virtual reality products do not have inelastic demand. Vendors need to create demand in order to drive subsequent business development. At CES 2017, six major virtual reality vendors (HTC, Sony, Google, Facebook, Acer, and Samsung) announced the establishment of the Global Virtual Reality Association (GVRA) with an aim to harmonise standards and solve pain-points in the virtual reality device market. The increasing stability of product quality should increase the potential user base, which in turn will incentivize developers to put more attention on creating VR content.

Starting from Q2 of 2017, with the increase in virtual reality content available, cross-system integration of content platforms has become even more important. In 2017, the virtual reality content platform that saw the highest use rate and achieved cross-system integration was Steam. That platform ranked first in terms of virtual reality content, with revenues of over USD 2 million. On the other hand, Oculus Home, PlayStation Store and VIVEPORT from VIVE currently support only their own virtual reality devices. Having an exclusive platform that can integrate different virtual reality systems will be key to building a complete virtual reality ecosystem and possessing a long-term revenue source.

## Business Scope

### Smartphones

In early 2018, HTC completed our business cooperation agreement with Google that was announced in September 2017, which marks a crucial milestone for HTC. Under this agreement, the 'Powered by HTC' teams that created the Google Pixel smartphones were transferred to Google, enabling HTC to focus on HTC-branded smartphones and connected devices, as well as delivering disruptive emerging technologies, and building our brand through the creation of the innovative, high quality products that our customers expect. With HTC's long pedigree of being first to bring new smartphone technologies to market, such as 4G, Android and LTE, we are working hard on the next industry transition to 5G.

As 5G arrives, it will open up endless new possibilities with ubiquitous connections. Smartphones will be the first step in 5G for consumers, and it is expected that virtual reality, augmented reality and artificial intelligence will be the killer applications for 5G, with its greater speeds and much reduced latency. Smartphones may look different from the shiny rectangles that we accustomed to today; they will also take on other forms as 5G reduces the need for device-based computing power. In the future, the screen may be decoupled from the smartphone and displayed to our AR or VR devices, or even projected directly onto our eyes.

## Virtual Reality

### HTC VIVE

The HTC VIVE virtual reality system was released in April of 2016 and became the world's first premium consumer virtual reality system with true room-scale tracking. In the two years since its introduction, VIVE not only drives the virtual reality industry, but is also leading the development of the VR ecosystem. According to the GDC State of the Game Industry 2017 report, HTC VIVE was the most popular head mounted display (HMD) among all the AR/VR devices and 33% of developers preferred to develop on the VIVE system (see Figure 5).

**Figure 5: GDC State of the Game Industry 2017 report survey**

#### Which VR/AR headset(s) most interest you as a developer right now?

(Choose all that apply)

N/A - Not involved in development for VR/AR headsets **47%**

HTC Vive (Valve/HTC) **33%**

Oculus Rift (Oculus) **26%**

PlayStation (Sony) **20%**

HoloLens (Microsoft) **18%**

Gear VR (Samsung/Oculus) **11%**

Magic Leap (Magic Leap) **10%**

Google Daydream (Google) **9%**

Google Cardboard (Google) **9%**

Others **4%**

VRDC VR/AR Innovation Report, Game Developers Conference

In 2017, HTC VIVE focused on broadening sales in the global market, launching in India and Thailand in April and October respectively. In December, the first high-end standalone VR device supporting six degrees of freedom (6DoF), the VIVE Focus, was made available for preorder on major online and offline channels in China.

In January 2018, HTC released the new VIVE Pro HMD and VIVE Wireless Adaptor module at the CES show, earning almost 30 awards that included several 'Best of CES 2018' and 'Coolest Innovation' awards. VIVE Pro is specifically designed for VR users seeking extreme experiences and has double OLED lens with 78% resolution upgrade, 3D surround sound and a more ergonomic hardware design, which has helped consolidate VIVE's status in the VR ecosystem. At the same time, we have listened to consumers' demands for wireless capability, and released the VIVE Wireless Adaptor, a collaboration with Intel® WiGig technology, to enable consumers enjoy greater freedom in their VR experience .

In November 2017, we announced the VIVE Wave VR SDK platform. This allows OEMs to implement the VIVE Wave SDK on their devices to help stimulate the VR ecosystem and reach more consumers. This initiative also allows VR

developers to reach many more potential customers across different hardware platforms. Meanwhile, hardware vendors can concentrate on device innovation and fundamental VR technology development, with access to high-quality VR content available on the VIVEPORT.

## VIVEPORT

VIVEPORT is the leading app store for virtual reality, where customers can explore, create, connect, and experience the content they love, and it represents a new business model for HTC. In addition to the VIVEPORT Arcade and VIVEPORT M editions, in February 2017, we successfully launched a new business model, VIVEPORT Subscription, which allows users to choose up to five VIVE titles for unlimited use per month with a low rate. In the last quarter of 2017, VIVEPORT Subscription experienced over 120% growth in subscribers compared to the third quarter, thus becoming a key driver for VIVEPORT business growth.

**Customer Satisfaction:** According to our 2017 US Customer Survey of Vive owners, VIVEPORT users who bought their Vive more recently are happier with their purchase and more active than the typical VIVE owner. VIVEPORT users expressed their satisfaction with a net promoter score of 66.6 (out of 100), which is significantly higher than competitors. Among 1,091 respondents who were VIVE owners, 40% of them are using VIVEPORT, showing significant growth compared to 2016.

**Content Acquisition:** To provide users with a great range of VR experiences, we've been working closely with VR content developers and publishers worldwide to expand VIVEPORT's variety and amount of content. By the end of 2017, more than 1000 titles have been published on VIVEPORT, which equates to a 310% annual growth rate.

**Product Enhancement:** Based on the trend of moving from a 'PC first' to a 'VR first' era, we announced the new VIVEPORT VR during CES 2018. Placing users in a futuristic hub, VIVEPORT VR makes it easier to discover new games and apps, letting them browse and purchase VIVEPORT content in VR. The new 'VR Preview' feature allows users to see a VR-based animated preview of content, offering developers a new way to showcase their titles.

## VIVELAND

VIVELAND is a virtual reality arcade in Taipei created by HTC in partnership with Syntrend, which opened in October 2016 with various types of VR experiences, such as multiplayer shooting, sports, Front Defense, car racing simulators, and 4D seated experiences. VIVELAND has gained invaluable VR arcade operation experience to apply to other locations, and we continue to cooperate with content developers around the world to create content most appropriate for arcade operation. All of the content in VIVELAND has proven successful and profitable.

VIVELAND, as a total solution provider, has successfully shipped the concept to Japan, China, Southeast Asia, and the Middle East. VIVELAND has participated in the Tokyo, Taipei, and Thailand Game Shows promoting VR arcade total solutions, and we look forward to bringing the VR arcade concept to a wider audience around the world.

## VIVE X

The VIVE X accelerator program provides funding, training, and resources for developer startups worldwide, with a

vision to build the VR ecosystem. Currently, VIVE X operates in the five major cities of Taipei, Beijing, Shenzhen, San Francisco and Tel Aviv, and London will commence a VIVE X program in 2018 for European developers.

In 2017, VIVE X recruited 26 startups for its third batch, making a total since launch of 85 teams. VIVE X has recorded several achievements this year:

**Broader application:** VIVE X has expanded into the fields of Artificial Intelligence (AI) and Brain-Computer Interface (BCI). The integration of advanced technologies encourages further exploration in the application of virtual reality.

**Wider territory:** VIVE X opened an office in Tel Aviv to encourage local talent to work on expanding VR and related technologies, and laid the groundwork for a London-based program in 2018. VIVE X also signed an MOU with the Busan IT Industry Promotion Agency, funded by the Busan Government, and the Tokyo VR Startup, one of the largest VR incubators in Japan. These collaborations will boost creativity with the exchange of resources. Other than the industry expertise, VIVE X has become well-known for its Demo Days held at the end of each batch, which are seen as one of the most important events in the VR and AR industry calendar. The third VIVE X Demo Day in Taipei, Shenzhen and San Francisco attracted many leading investors and companies from different industries. Through these achievements, HTC's leading position in the industry will be strengthened and enhanced while enabling effective growth of the ecosystem.

## VIVE Arts

VIVE Arts is a global program aimed at advancing the creation and appreciation of the arts through the latest technology, including VR, AR, and beyond. Launched in November 2017, VIVE Arts' mission is to enable and preserve cultural heritage for the world, and to democratize artistic creation with digital innovation in the arts. In doing so, VIVE Arts' mission addresses a diverse, global audience and contributes to the knowledge and enjoyment of our cultural heritage, both in cultural institutions and in the home.

Since its launch, the HTC VIVE virtual reality system has featured in numerous collaborations with some of the most distinguished museums and galleries around the world, including the Tate Modern and Royal Academy in London, the Natural History Museum in Paris, the Newseum in Washington D.C., and the National Palace Museum in Taipei.

HTC VIVE's virtual reality has proven to benefit society in new and enriching ways and has attracted media attention globally. A VIVE Arts project has received comprehensive and highly positive coverage in the world's leading media, including the New York Times, the Financial Times, China Daily, and much more.

## Business Results

On the smartphone side, HTC continued to face stiff competition in the market; however, our share of the Taiwan smartphone market in 2017 remained in the top 5 at 9%, according to research firm Gartner.

In the VR market in 2017, HTC VIVE had a market share in high-end virtual reality devices of 47.26%, ranking number 1 in the world, according to a survey by Steam, the world's largest digital distribution platform for PC games. As well as focusing on growth of the business, HTC has invested considerable resources into developing the VR ecosystem

to expand the reach of VR far beyond gaming. Premium VR has applications in education, art, healthcare, enterprise, design, military and much more, and VIVE has been the leading choice for each sector to step into the realm of VR. With launch of the standalone headset VIVE Focus, the next generation VIVE Pro headset and the VIVE Wireless Adaptor at the turn of 2018, VIVE is well positioned to expand the market through 2018 and set new benchmarks for the industry.

As of the close of December 31, 2017, HTC's 2017 revenue was at NT\$62.12 billion with gross margin of 2%.

## Brand Strategy

The power of brand lies in what it represents: the resonance, meaning, and promise to our customers, our partners and employees. HTC brings brilliance to life through leading innovation in smart mobile device and experience design.

Beginning with a vision to put a personal computer in the palm of our customers' hand, we have led the way in the evolution from palm PC to smartphone to bring innovative design to life. HTC was awarded "Device Manufacturer of the Year" at Mobile World Congress in 2011, and HTC was listed in the Best 100 international brands by Interbrand in the same year. Each year a numerous of outstanding mobile devices have won awards for cutting-edge technology, product design and innovative products. With the smartphone market booming in recent years, we are now applying that same innovative approach to connected devices and virtual reality. As before, HTC brand new products have earned plenty of awards and great acclaims from experts and media globally.

While we expanded from producing and marketing world-class smartphones into the exciting technology of connected devices and virtual reality, there is a strong need to augment the HTC brand story and introduce the VIVE brand to entirely new constituencies.

The VIVE brand is about unleashing human imagination beyond the limitations of reality. Our vision can be understood from its triangle logo mark, which represents the unity of three key elements – humanity, technology, and imagination. The center of the logo symbolized a portal to a new kind of experience that VIVE delivers. VIVE was born from a faith in humanity and forged by a respect for technology, paving the way for bringing people closer to their imagination than ever before. VIVE has not only changed the gaming industry, its powerful influence has also stimulated entertainment, education, design, health care, art, shopping and social networking, and many other industries. Through the most immersive and considered virtual reality experience, VIVE can positively impact the world, affecting the way we live, learn, entertained and believe.

VIVE embodies so much more than just hardware. From the first marketplace dedicated to VR apps, VIVEPORT, to a custom content creation engine, VIVE Studios, an ecosystem acceleration engine in the VIVE X program to wide industry alliances, VIVE is doing more than anyone to lay a firm foundation for the industry. HTC also founded the Asia-Pacific Virtual Reality Industry Alliance (APVRA) in 2016 and held VIVE Ecosystem Conference in March 2017 (VEC2017) which strengthens our leading position in virtual reality.

To further demonstrate how virtual reality can lead to positive impact, HTC initiated a \$10 million 'VR/AR for Impact' program to cultivate content/applications that support the United Nation's Sustainable Development Goals. All of these initiatives and actions not only increased our brand awareness and also showing greater confidence to live up to our brand promise.

While 'Quietly Brilliant' is deeply rooted within HTC's corporate culture, we restated our brand promise as the 'Pursuit of Brilliance' since 2014, in order to bring a more dynamic, aspirational objective to life. The 'Pursuit of Brilliance' serves as a mantra, a truism about the deep respect for the important place we hold in our customers' lives. Our pursuit of brilliance results in the best-designed and most technologically advanced products that enable and empower our customers to amplify and share their ambitions, talents and skills with others, so they can be more effective, more brilliant in their own lives. The 'Pursuit of Brilliance' is a promise that HTC will always strive to empower our customers to pursue their own brilliance in big and small ways, every day. The emotional resonance we've developed with our customers is demonstrated in our commitment and hard work, innovating in ways that make them more creative, more connected, more deeply human.

Lately in March 2018, HTC released a new brand music video featuring HTC employees and Asia's super band "Mayday", HTC's brand ambassador for the Greater China Region. The stories illustrate how people pursuing to their dreams and move ahead in the face of real life setbacks. Just as HTC has faced many challenges in the past 20 years, we strive to bring innovative design and products to life. We believe that perseverance can bring strength and create brilliant moments in life. We will work hard to keep HTC a shining brand in the world.

## Product Marketing

### Smartphones

HTC is a brand for those who don't want status quo. We are obsessed with designing cool and innovative experiences that enable people to shape their lives to be more brilliant. Our goal is to allow everyone to live a more brilliant life. Brilliance is not just for the brilliant few. Brilliance is in all of us.

In 2017, HTC has opened a new era of smartphone interactivity with a brand new model. We were determined to continue the goal of producing innovative products to differentiate our brand among competitors. With that sense of mission, HTC introduced series of innovative products and marketing campaigns in 2017, ranged from mid-range to high-end U series to satisfy different consumer needs.

To kick start the year, HTC U Ultra and HTC U Play joint global launch event was held at Taipei headquarter. The tagline 'Made for the Brilliant U' encapsulated the essence of the marketing campaign. 'It's all about U', our single-minded communication message for the entire campaign. Key themes included: It reflects every single U with the sophisticated new liquid surface. It learns from U with HTC's new AI assistant, HTC Sense Companion which

learns from and gets to know you better over time. It listens to U because HTC USonic adapts to your personal hearing. It captures the best U with the UltraPixel cameras.

In May, we celebrated our 20th year anniversary by announcing HTC U11 with its ground-breaking feature - HTC Edge Sense. A revolutionary, natural, intuitive and effortless squeeze gesture lets you interact with your phone. With consumers at the center, we connected the many sides of people's personalities with Edge Sense to mark our campaign theme as Squeeze for the Brilliant U. Vivid and bold commercials highlighting "squeeze" caught tremendous attention and discussion across regions. Furthermore, HTC U11 received one of the highest DxOMarksi ever awarded to a smartphone camera at the time. We also improved HTC USonic by adding Active Noise Cancellation so that users could focus on their music instead of distracting, outside noises. Once again, HTC set a new standard of what you can expect from a smartphone.

In July, we partnered with Amazon to develop HTC Alexa to deliver the world's first hands-free Amazon Alexa. With Always-On Microphone capability, even when you're not using your phone you can wake up your phone by just asking, "Alexa, what's the weather today?" or "Alexa, turn on my living room lights." Alexa will respond anywhere and anytime—no app to tap, no buttons to push. It's Alexa on the go. HTC Alexa gives you fast, easy access to Alexa's extensive services. This feature proved to be a huge hit with consumers in the U.S., U.K. and Germany.

In November, building on the award-winning design and innovation of the flagship HTC U11, we announced two new members of the U family, the HTC U11 Life along with the HTC U11+. Two versions of the HTC U11 Life were launched: a version running the HTC Sense UI, which was released in the United States, and a version running Android One, which was released in other countries. Like its predecessor, the HTC U11 life was designed to reflect U – your drive, passion, creativity, and individuality – yet uniquely delivers flagship-quality features and experiences at just a fraction of a flagship's price. HTC U11+ placed an upgraded 6" screen with an 18:9 aspect ratio into consumers hand. It's bigger battery at nearly 4,000mAh, the stunning translucent liquid surface design, and a more water resistant IP68 rating have been the key selling points to make consumers find it irresistible.

In Taiwan, later in summer during the 2017 Taipei Universiade, we offered a special promotion to express our gratitude for athletes who represented and fought for the best record in the game. The result was very positive, and made HTC U11 the top-selling Android flagship smartphone of July, and ranked third in annual market share in Taiwan among the Android smartphones. This achievement not only encouraged the customers of HTC, but also gave our team a strong confidence.

Other than cooperating with existing contracted stores and telecommunication partners, our e-commerce has also grown exponentially in 2017. At the end of 2017, HTC Taiwan Sales & Marketing Team also proposed a new contract to extend the marketing resources of HTC stores with these channels, and we have received great recognition as the consumer electronics stores and franchise stores were eager to reach us directly. Currently we have over 100 contracted partners, and the number is expected to grow by 3 times; this reassures a promising future of our smartphone business. In terms of the plans for 2018, we will reinforce the partnership with retailers as part of the "HTC Family" new project, and work with channels: including consumer electronics stores, franchise stores and hypermarkets to sell HTC products.

2017 was HTC's 20th anniversary, thus we have partnered with Asia's super band -- Mayday, who's also celebrating their 20th anniversary to be our brand ambassador. They were excited about being able to cooperate once again with HTC, as we both share the same innovative spirits, and this was regarded as an opportunity to elevate the brand's

momentum and show our strength to the world. In March 2018, a new music video featuring Mayday has been released, which telling stories of how people pursue their dreams against all challenges in life; just like HTC, despite the challenges occurred in the past 20 years, we continued to embrace our brand spirit of "Pursuit of Brilliance", and develop innovative products to light up the world. The total views of that brand video on Facebook and YouTube reached 2 million within a month of release; as consumers expressed their support for the touching message, we have deepened our brand association with the public successfully.

Nevertheless, HTC Community and Taiwan Sales & Marketing Team also organized fan events, allowing HTC fans to meet the actors who featured in the video. Moreover, end users were invited to share their personal mantra at the "Pursuit of Brilliance" gallery on HTC Taiwan's official site to spread the positive spirit across the island. Internal communications team held a social competition right after the release of HTC x Mayday's music video too. Many colleagues shared the MV and/or HTC related product promotional messages on their social media, and the results were very positive. The stage property: HTC light wall with thousands of Dream Can was moved to the lobby of Taipei headquarter and has become a popular photo spot. All the retail stores participated in this campaign as well. Through the collaboration between the aforementioned teams, the MV successfully received huge recognition from the market and the click-through rate of this video continues to rise. As described in that video, we believe that persistence will bring you strength and create a brilliant moment in your life. We will keep moving forward as always, and make the HTC brand shine on the world stage!

Source: HTC U11 Mobile review: The new DxOMark leader

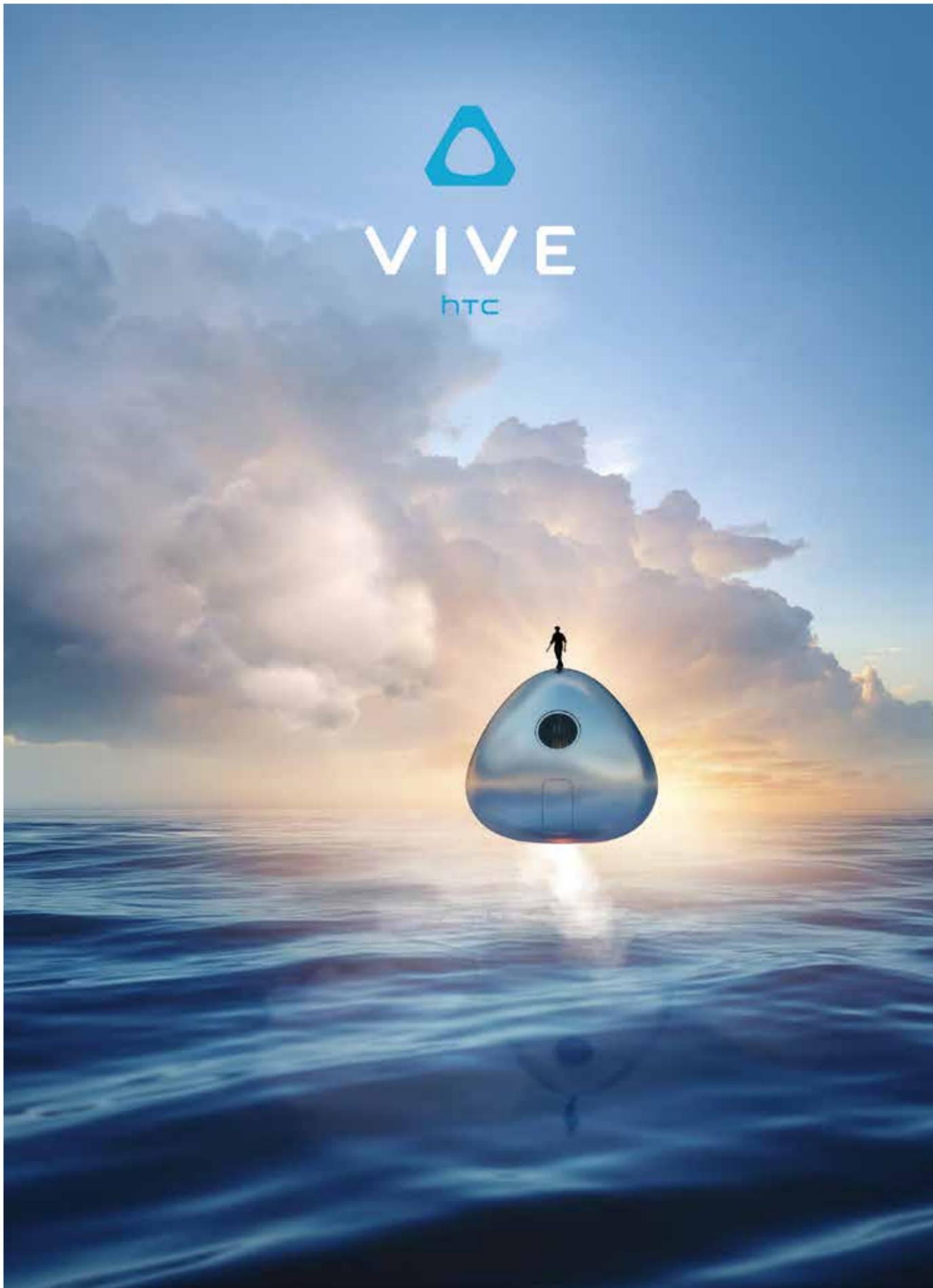
## Virtual Reality

2017 further solidified HTC's leadership position in Premium VR by building out a complete ecosystem of hardware and software products that sets the VIVE VR experience apart from competitors in the premium VR space.

The year kicked off with an introduction of VR's first accessories with the VIVE Tracker, VIVE Deluxe Audio Strap and TPCAST wireless adaptor to provide users with more vivid experiences. The VIVE Tracker created a product foundation that allowed developers to quickly introduce motion control to any object to bring into the VR realm. In addition to hardware prototypes, developers quickly discovered new uses for the Trackers including Motion Capture, which dramatically reduced the costs over traditionally Hollywood-esque capture solutions. Companies like Hyperkin and Logitech also introduced new hardware products that brought a tracked VR blaster to multiple games and a tracked keyboard so that typing in VR was no longer an issue.

The VIVE Deluxe Audio Strap continued our commitment to iterate and improve upon the original VIVE. Over time we have reduced the weight of the original VIVE, improved the 3-in-1 cable, and with the Deluxe Audio Strap, vastly improved comfort and audio for VIVE users. The Deluxe Audio Strap has been one of our most popular accessories to date with a high attach rate for both online and in-store retailers.

2017 was the year that massive brands such as Intel and Apple aligned with VIVE as their VR platform of choice. We announced a partnership with Intel and our commitment to deliver our own VIVE Wireless Adaptor that will work with our current and future products. We also announced a partnership with Apple to support their new operating system and their avid developer base. VIVE was the first VR headset certified to run with Apple hardware and we continue to work toward extending our partnership in the VR space.



As the industry leader in virtual reality, we know that hardware and software are indispensable keys to building a complete virtual reality ecosystem. Our VR platform, VIVEPORT, continued to see rapid improvements and a growing catalogue of titles across creative categories. After more than one year of efforts, VIVEPORT has more than 1,000 quality virtual reality contents for users to download and the number keeps going up. VIVEPORT also set up an exclusive below the line VR experience stores, VIVEPORT ARCADE. VIVEPORT Arcade is a strategic ecosystem initiative to foster further innovation in virtual reality content and applications, to learn best practices to be shared with operators around the world, to open new revenue streams for developer, and to enable competitive advantages for the digital content industry.

To boost interest in the platform, we introduced VIVEPORT Subscription, which was VR's first subscription service. VIVEPORT Subscription is designed to help customers navigate the burgeoning market for VR apps as well as introduce a new channel through which VR developers can monetize their content. Launched in 2017, VIVEPORT Subscription service provides access to an ever-growing library of content for a low monthly fee. With the first purchase of VIVE, users instantly receive two months of free VIVEPORT Subscription. Furthermore there are also complementary plans for 3 months, 6 months and 12 months for consumers to choose from. VIVEPORT keeps coming up with new contents to create the richest, most diversified virtual reality content platform with the highest value. The service has driven retention of VIVE customers, as 40+% of customers have retained their subscription after the trial period, proving immense value to both the consumers and to VIVE.

In addition to the virtual reality content platform, VIVE also has virtual reality development and publishing teams under its banner. VIVE STUDIOS is a team dedicated exclusively to development and publishing virtual reality content, with published works covering application contents that are produced both in-house and externally from cooperation with outside developers. Two in-house studios under the VIVE internal innovative creation team are "Fantahorn Studio" and "2 Bears Studio" and they have published many high-quality virtual reality games with various features. Among them "Front Defense: Heroes" by Fantahorn Studio readily took the market by storm when it just went online and held many large-scale virtual reality gaming competitions around the world soon afterwards. On the other hand, 2 Bears Studio is dedicated to developing fast-paced action VR application content "Arcade Saga" for VIVE, and the latest puzzle game, "Super Puzzle Galaxy."

To make consumers experience accurate and precise room scale technology, VIVE has introduced many sales combinations that bundles software contents and hardware devices. In October of 2017, an AAA title "Fallout 4 VR" was released as a sales combo set. "Fallout 4 VR" is a AAA class game published by Bethesda Game Studios and is a classic adventure game with background set in a post-apocalyptic world after a nuclear disaster and has won over 200 awards around the globe. HTC VIVE release its VR version to meet everyone's expectation and do it through the most advanced virtual reality technology to recount an all-new content with fighting and adventure. Furthermore VIVE also actively worked in syndication with famous contents to introduce sales combinations with unique features and they include a Japanese series major card game "Kai-ri-Sei Million Arthur VR", and "Star Trek: Bridge Crew" that makes players immersed in the world of Star Trek. In terms of hardware, besides introducing different VIVE exclusive accessories with combinations like VIVE Deluxe Audio Strap, VIVE Tracker, VR table tennis racket, and VR tennis racket, VIVE also introduced sales combinations that go with computers and display cards and they all hit the market by storm.

Moreover in 2017 VIVE had been invited to take part in major international game and information exhibitions in the Asia Pacific region like Taipei Game Show, Tokyo Game Show, World Congress on Information Technology, G-Star, PAX Australia, Thailand Game Show and so on. Therefore we can know that hardware and software contents related

to virtual reality have become one of the world’s major trends as well as one of the powerful commodities and that VIVE has continued to play a decisive role as a leader in the virtual reality industry. Besides taking part actively in major international exhibitions, VIVE has also left no stones unturned when it came to marketing and promotion. For example cross-industry alliance with professional sports leagues, technology connection with Golden Melody Awards in the music part and with Golden Bell Awards, cross-industry alliance with international gaming competitions, and so on to let partners in different industries know VR, experience VR and then combine VR to make the virtual reality ecosystem of VIVE getting closer to perfection.

Since its introduction, VIVE has been committed to introducing virtual reality to major enterprises. In the automotive industry it has collaborated with many of the famous car brands. In 2017 it worked together again with Volkswagen Group and Innoactive to build a “production and logistics virtual reality solution” inside the group. There is especially rapid growth in the training sector with Lowes and UPS all standardizing their VR training on Vive. Additional partners such as GM, Ford, Diamler, Dassault, BMW, VW, Boeing, Airbus, and many more have trialed or deployed VIVE. VIVE also expanded its reach to various major areas. We cooperated with the international renowned director, Tsai Ming-liang, to launch the first mandarin virtual reality film “The Deserted” and received many praises and accolades from foreign media and curators during the 74th Venice Film Festival. We also formed strategic partnership with Warner Bros. Entertainment Inc and became the exclusive partner in the virtual reality content of Oscar-winning director Steven Spielberg’s much anticipated new movie Ready Player One. Apart from this, we worked hand in hand with world-renowned museums and art museums (like National Palace Museum in Taipei, La Geode in Paris, Tate Modern in London and so on) to combine art with virtual reality to create unique and innovative experiences different from the past.

HTC VIVE unveiled new hardware upgrades at CES 2018, the new upgrade HMD VIVE Pro and VIVE Wireless Adaptor that features Intel’s WiGig technology, that deliver premium VR experiences to consumers and enterprises. VIVE also introduced the optimized VIVEPORT VR and debuted VIVE Video to provide virtual reality users the most immersive experiences and enjoy the unlimited pleasure of cruising the virtual world.

In 2017, HTC has set many milestones and benchmarks in the virtual reality industry and the whole world. In 2018 VIVE will continue to create unlimited possibilities for the world. There’s much more to come for VIVE and VR. We have begun to build the foundation for a shared vision we call “VIVE Reality” that intersects VR, AR, 5G and Edge Computing to create the computing platform of the future.

## VIVE Arts

VIVE Arts provides multi-layered support to institutional partners whose proposals speak to VIVE Arts’ Mission. On the content side, VIVE Arts partners may receive funding and content advisory from VIVE Studio, as well as marketing and distribution support through VIVEPORT. On the product side, VIVE Arts enables partners to present their contents on HTC VIVE virtual reality system.

For instance, Tate Modern, the world’s most visited museum for modern contemporary art, used virtual reality for its Modigliani exhibition (November 23, 2017 - April 2, 2018). Working closely with VIVE Studio, the museum’s curatorial and digital team produced Modigliani VR: The Ochre Atelier, as an integrated part of the exhibition. Throughout the 19 weeks, approximately 78,250 visitors had experienced this carefully curated content on VIVE headsets in the London gallery. The content is also made available to the global audience through VIVEPORT.

HTC VIVE has actively engaged with new audience through the VIVE Arts program. In March 2018, HTC VIVE becomes the first ever official virtual reality partner of Art Basel, the world’s most prestigious art fair. In addition to providing support to galleries presenting virtual reality artworks at the fair, HTC VIVE also presented works of artist Anish Kapoor and Marina Abramovic on VIVE Pro and VIVE Focus to the 80,000 international visitors to the fair.

# Progress in Research & Development

## Smartphones

Since its inception, HTC has invested consistently to consolidate in-house R&D capabilities. Frequently, HTC products are trailblazers, earning a long line of “firsts” that includes the world’s first Windows Mobile and Android smartphones, first dual-mode GSM/WiMAX phone, first 3G/4G Android phone, and first LTE Android phone. HTC Sense™, launched in 2009, was a momentous breakthrough that revolutionized the mobile phone experience. In 2011, HTC launched several enhanced cloud and audio-visual services that enhance and enrich the HTC user experience.

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

HTC unveiled the HTC One family at the 2012 Mobile World Congress. This addition to HTC’s portfolio further streamlined the user experience with unparalleled design aesthetics, with amazing camera and authentic sound. The HTC One was the only smartphone in its class with the all-new ImageSense™ to enhance image and video capture functions.

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

At a product launch held in London and New York in February of 2013, HTC unveiled the new flagship smartphone HTC One (later called the M7). The device disrupted the traditional mobile experience, and featured a seamless metal unibody design. The HTC One came with the latest HTC Sense that includes HTC BlinkFeed™, which gives the user a real-time dynamic homepage to access global and personal social networks news. Zoe™ shooting mode used HTC UltraPixel™-powered camera to bring image galleries to life, and redefined how people take pictures, play and share



precious moments. In addition, HTC BoomSound™ provides the industry's best mobile audio experience, utilizing front-facing speakers and dual dynamic microphones. Add to that a full HD screen, and users can immerse themselves in their music, movies, and games. In addition, HTC Sense TV™ allows for the control of most TVs, set-top boxes, and receivers by transforming the smartphone into a remote control. The HTC One M7 won the Best Smartphone of the Year at the 2014 MWC hosted in February by the GSMA as well as the iF Gold Design Award in Germany, among many other industry and media awards. These awards affirmed once more that design and innovation are a key part of HTC's DNA.

In March 2014, the latest flagship model HTC One M8 was released in London and New York. HTC One M8 elevated craftsmanship to a whole new level. The new one-piece metal casing covers 90% of the device, presenting an immense challenge to antenna design. After extensive design and calibration, HTC One M8 was the only phone in the world with an all-metal unibody that has passed all carriers testing and sold simultaneously through 230 carriers worldwide. The ultra-thin HTC One M8 with its curved edges and brushed metal finish offers the ultimate grip and visual aesthetics. The new generation of HTC BoomSound™ increased 3D sound performance by a further 25%, and the proprietary Duo Camera provided super-fast focusing (300ms) to capture every exciting moment of the user. The UFocus™ function can be used to alter the focus of the images while all creative photo backgrounds and Seasons animations offer the user an incomparable photo experience. The new Zoe™ integrates all its functions even more intuitively and seamlessly into the snapshot function. Combining Motion Launch™ gestures with the new Sense 6 (6th Sense) and Smart Sensor Hub, HTC One M8 is able to recognize gestures and touch control tracks to intelligently launch corresponding functions or apps. The HTC One M8 incorporated all of these functions without compromising the battery life. More demanding conditions and specifications extend the extreme power-saving function increases the standby time to two weeks. With all of these smart functions, the HTC One M8 undoubtedly is the pioneer and undisputed leader for the next generation of smartphone applications and user experience.

HTC and Google together released Nexus 9 tablet in October 2014. The 8.9-inch Nexus 9 has a well-sized 2K (2014 x 1536 pixels) IPS display to provide immersive video a 4:3 aspect ratio (length to width ratio) in conjunction with 7.95 mm ultra-thin body thickness together with tone rich HTC BoomSound dual front stereo speakers. The attach-to-go, responsive removable Bluetooth keyboard and protective cover transform Nexus 9 to a portable workstation instantly. In conjunction with origami-based collapsible and flip-angle seat cover, the integral device integration provides Nexus 9 with mobility, so that the user can always keep productivity. With the optimal 64-bit NVIDIA Tegra K1 (dual 2.3 GHz

Denver CPU and 192 core Kepler mobile GPU) processor, in conjunction with the always-on intuitive voice command and globally debuted 64-bit Android Lollipop OS, Nexus 9 has improved both productivity and tablet operation experience to a completely new level.

HTC continues challenging ourselves to aim higher. Building on the design DNA of its predecessors, the HTC One M9 combines the antenna and precision of HTC One M7 and the ergonomic curves of HTC One M8 in a seamless, elegant metal unibody. We achieved another industry first, applying a dual tone, dual finish combination to the body of our phone. The back panel is brushed with a gorgeous hairline finish, retaining the unique HTC look, while the sidewalls are polished to perfection with a mirror finish. Staying true to our design philosophy, we machined this phone from a solid piece of aluminum, to our iconic unibody design. The phone was received enthusiastically by press and fans.

In April 2016, HTC unveiled the new flagship smartphone, the HTC 10. With customer feedback an integral part of the development process combined with an obsessive attention to detail, the HTC 10 delivers everything that consumer would want from a flagship device. Inspired by light and sculpted to perfection, the HTC 10 employs new design approach where bold contours are carved out of solid metal. Capturing the light beautifully, the chamfered edges boast a slimmer and slender look with its full-glass front merging seamlessly into the metal body. With the world's first optically stabilized, new larger sensors, 12 million of our new generation UltraPixels), faster laser autofocus powering the main camera and a wide angle lens and screen flash on the front UltraSelfie™ camera, HTC 10 delivers brilliantly sharp, low light and high-resolution photos whether behind or in front of the lens. The HTC 10 combines vivid 4K video with the world's first stereo, 24-bit, Hi-Res audio recording – capturing 256 times more detail than standard recordings, across twice the frequency range. Whilst the HTC 10 raises the bar on the hardware, we have also delivered what we believe to be best-in-class software by focusing on getting the fundamentals right. With apps that launch twice as fast and that perform to the highest standard and a next generation quad HD display that is 30% more colourful, creating a true cinematic feel, and that is 50% more responsive to touch than its predecessor, even the smallest and fastest of finger movements track perfectly.

In January 2017, HTC employed “You” as the concept behind its design to launch the brand-new HTC U Ultra that features a whole new design with 3D watery-curved glass for its look, unveiling the direction of its product design for 2017. Among these new phones, sapphire glass was introduced as the higher level model and was the first premium cellphone for HTC to feature protection through sapphire crystal glass of which the sturdiness is comparable to diamonds, making it the ultimate choice to resist against cracking and scratching cellphones. Through in-depth learning, HTC Sense Companion is able to gradually learn about individual users' habits of use and it can offer touching suggestions that are suitable for users. The built-in voice recognition offers the ability to recognize voice and then respond. It can even start the cellphone when it is on standby. For multimedia, the Super LCD5 with the resolution of 5.7-inch QHD offers the most optimal visual experience. HTC USonic high-quality earphone is able to analyze users' inner ears adopting wave pulse analysis, with one button press to complete personalized smart sound effect. The cellphone features four high-sensitivity all-directional microphones that allow recording of sound from 360 degrees all around to create a realistic, immersive effect as if being present on site. The main camera captures a perfect image using its 12Mp UltraPixel high-sensitization sensor along with optical anti-handshake and laser focusing. The front camera is configured with a 16Mp resolution that offers powerful capture of details and can switch to the first-featured UltraPixel high-sensitization mode under low light to enhance perception of light up to four times.

The HTC U11 was released in May of 2017 and comes with HTC Edge Sense, ushering in a new era of mobile phone interactions. With a simple squeeze, HTC Edge Sense lets you easily engage with your phone in an unprecedented yet intuitive way, helping you more naturally enjoy the things you love like launching the camera, taking photos, launching

an application, instant recording, taking a screenshot, Google Assistant, Voice to Text and so on. Functions that used to demand several steps can be completed by a single squeeze now. The HTC U11 uses an astonishing 3D Liquid Glass Surface that is finely crafted using Optical Spectral Hybrid Deposition. By layering highly-refractive precious minerals across the phone’s back cover, we’ve created stunningly vivid new colors that transforms light with every movement you make. It is not only stylish and easy to hold with dust-proof and waterproof capabilities. The primary camera (12MP) of the all-new HTC UltraPixel 3 has the UltraSpeed Autofocus function that gets a high score of 90 on DxOMark benchmarking and ranks among the top in the world of smart phone cameras. The HTC Usonic personalized sound is now integrated with active noise cancellation that can lower ambient disruptions and noises to bring you the purest music. Active noise cancellation can continuously monitor ambient sound levels and make quick adjustments on newly emerged noises and disruptions. HTC Usonic and active noise cancellation will operate in parallel automatically, letting you focus on music, videos or games any time. The HTC BoomSound Hi-Fi edition is also fully upgraded. We have improved the speaker design to allow more loudness and have better dynamic range audio. The tweeter now offers an acoustic chamber that allows the highs and mids to sound richer. The woofer sports a new speaker and improved magnetic circuit design for louder, clearer and appreciably deeper bass tones to give you a natural soundscape with exceptional audio detail. The HTC U11 comes with Qualcomm® Snapdragon™ 835 Mobile Platform iv, which is the first 10 nm mobile processor. You get 25% faster graphics than the HTC 10, with 35% or 3 hours more video playback, 30% or 8 hours more music playback and 43% or 3.5 hours longer web browsing time via LTE network.

Launched in November 2017, HTC U11+, inherited the innovative DNA of HTC U11, has developed even more sophisticated functions. HTC U11+ is equipped with an ultra-large 6-inch 18:9 display screen. The narrow and long stature is designed for ergonomics, making it easy to operate even with one hand. The built-in 3,930 mAh large-capacity battery can meet consumer demand throughout the day. The display screen supports the DCI-P3 wide color gamut, perfect for saturated and diversified hues with stunning color accuracy. The reinforced Edge Launcher allows users to complete task easily with one hand, such as launching the camera, accessing Google Assistant and Amazon Alexa, or simply opening different apps. Moreover, users can choose to use their dominant hand to operate the Edge Launcher. Inspired by the liquid surface glass design of HTC U11, HTC U11+’s “Translucent Black” reveals a higher level of exquisite craftsmanship where users can see some of the internal components through the translucent rear case, setting a new milestone in mobile phone aesthetics.

## Virtual Reality

In March 2015, HTC and Valve® partnered to unveil the HTC VIVE™ virtual reality system, fulfilling the promises of creating fully immersive experience that change how we communicate, how we are entertained and how we learn and train. With a resolution of up to 2160 x 1200 pixels and a refresh rate of 90Hz, HTC VIVE headset literally takes users to the virtual world before they know it. It stands out with its powerful positional tracking system and industry-leading room-scale experience that can track users’ every move in the room utilizing laser sensing and tracking technology, along with instant feedback that enables users to find there’s only a fine line between the virtual and the real world. Since its launch on the market, VIVE has received numerous rewards, including “Best in Show” and “Best Wearable” awards in the 2015 Mobile World Congress (MWC).

In the Consumer Electronics Show (CES) in the U.S. in January 2016, HTC launched its second developer edition, HTC VIVE Pre, which has revolutionary development in its appearance and capabilities and has taken a vital step further

by taking the VR industry into the consumer market with its already matured technology. With a sleeker design and a brand-new headstrap, HTC VIVE Pre provides greater stability and balance; the new system renders brighter displays and more subtle images to provide a deeper sense of immersion. Redesigned from an angled shape of the first developer version to a round and smooth style, HTC VIVE Pre handheld controller looks more futuristic and provides a more ergonomic experience with a specially designed handle and selected materiel. It lasts for up to 4 hours in a single charge with rechargeable lithium batteries. Furthermore, the positional tracking technology of HTC VIVE has been improved to provide a more stable tracking system that gives users the abilities to walk around and navigate naturally in the virtual world.

In the CES in the U.S. in January 2017, HTC debuted two premium accessories, the VIVE Tracker™ and VIVE Deluxe Audio Strap™. The VIVE Tracker will open new options for developers to make VR even more immersive with additional tracking capabilities and new peripherals. The VIVE Deluxe Audio Strap is designed for a more comfortable and convenient VR experience, with integrated earphones and a sizing dial for a quick adjustment of the headstrap.

## VIVE Pro

In January 2018, we announced the new hardware upgrades that deliver premium VR experiences to consumers and enterprises with the introduction of VIVE Pro and VIVE Wireless Adaptor. VIVE Pro is a new HMD upgrade from VIVE, built for VR enthusiasts and enterprise users who want the best display and audio for their VR experiences. VIVE Pro includes dual-OLED displays for a crisp picture resolution of 2880 x 1660 combined, a 78% increase in resolution over the current VIVE HMD. This premium resolution enhances immersion for VR enthusiasts, and the improved clarity means text, graphics and overall experience all come into sharper view. VIVE Pro also features integrated, high-performance headphones with a built-in amplifier to offer a heightened sense of presence and an overall richer sound. VIVE Pro’s new headstrap was built with enhanced ergonomics and comfort, including a sizing dial for a more balanced headset that decreases weight on the front of the headset. Additional improvements include dual microphones with active noise cancellation and dual front-facing cameras designed to empower developer creativity.

## VIVE Wireless Adaptor

The all new VIVE Wireless Adaptor is the first to market with a truly wireless VR headset integration for both VIVE and VIVE Pro. The VIVE Wireless Adaptor offers a premium VR wireless experience that operates in the interference-free 60Ghz band, which means lower latency and better performance.

## VIVE Focus

VIVE Focus is the revolutionary standalone and mobile VR device. Without the need to be attached to a PC or a phone, the VIVE Focus is designed to deliver unparalleled convenience and exceptional comfort. It can be put on and taken off in a couple of seconds and immediately turns on when placed on the head. The VIVE Focus gives users the freedom to wander anytime and anywhere.

The VIVE Focus delivers a compelling experience through inside-out 6-degrees-of-freedom (6DoF) world-scale tracking. Powered by Qualcomm Snapdragon 835 VR Platform, the VIVE Focus also coupled with a 3K 75Hz

high-definition AMOLED screen, 110-degree field of view. With surpassed clarity and low latency, the VIVE Focus allows users to enjoy the wonders of VR world. It also comes with water-resistant padding and is designed to be glasses-friendly, with its ergonomically balanced design allowing for all-day wear.

## Healthcare

The HTC Healthcare business unit comprises cross-domain experts and engineers in areas such as computer science, software engineering, medicine, regulations, user experience, design, through virtual reality / augmented reality, big data and artificial intelligence technology, with the goal of developing and providing precision personalized medical products and services to reduce costs and improve the effectiveness of healthcare.

### VIVEPAPER

HTC DeepQ Healthcare business unit has launched a novel augmented reality reading system named VIVEPAPER in October 2016. VIVEPAPER renders virtual multimedia content on a piece of physical paper (card stock). The paper then appears as a multimedia book when viewed through the display of a head-mount device (HMD). The rendering pipeline of VIVEPAPER consists of three main components: an HMD with a frontal camera, a card-stock paper printed with visual fiducial markers, and an HCI module. A user sees a virtual book on the display of a HMD rendered from the physical card stock. The user can interact with the book through natural hand gestures and eye positioning such as swipe for flipping pages, and point-and-click or staring for selecting content.

VIVEPAPER turns an ordinary piece of two-dimensional card stock into a doorway to an infinite amount of content in 2D, 3D, VR, and any other format that can be rendered on the HMD display, while preserving the natural ways of human-book interactions. HTC DeepQ Healthcare business unit has collaborated with several medical universities and hospitals to develop surgical training, long-term care, nursing technique training, health education and first aid medical content through VIVEPAPER into rich immersive and interactive VR media materials, greatly enhancing learning interest and effect. In the future, HTC DeepQ Healthcare business unit will work with more hospitals and schools to develop related medical contents for breaking through the bottleneck of traditional medical education.

### No.1 AI medical service chat robot in Taiwan - Wan Xiaofang

HTC DeepQ Healthcare business unit cooperated with Taipei Municipal Wanfang Hospital to launch the Taiwan first artificial intelligence medical services chat robot named – “Wan Xiaofang”. Wan Xiaofang can provide 24-hours online and one-stop services. User can key-in a few symptoms occurring, and then Wan Xiaofang will respond with appropriate clinic nearby through AI technologies, and provide online registration and other medical services accessible.

In the future, Wanfang Hospital will continue to cooperate with the HTC DeepQ Healthcare business unit to upgrading the chat robot - Wan Xiaofang’s functionalities and providing more services. Wanfang Hospital will also leverage DeepQ’s artificial intelligence technology in conjunction with the App to increase patients’ accessibility to medical services; inquire about personal records of physical examination and medication, as well as integrate the

hospitalized services in the smart ward and the long-term care service in communities out of hospital.

### Smart epidemic prevention chat robot -Disease Manager

HTC DeepQ Healthcare business unit cooperated with Center for Disease Control (CDC, Taiwan) in the development of “LINE @ chatbot - Disease Manager” that can provide people with practical and reliable information for epidemic prevention and flu vaccine-related counseling services. In the past years, public accessing to the flu vaccination related information is mainly available via the epidemic prevention service hotline: 1922, or visit the CDC official website to find a list of flu vaccination authorized clinics. After the launch of the “Disease Manager”, people may provide their personal or their family members’ birth date(s) and location to the chat robot, and then they could be promptly responded with the answers to know whether they are eligible to receive the free flu vaccination and the phone numbers and address to an authorized clinic nearby for further liaison. Disease Manager can provide real-time responses to the frequent asked questions for influenza vaccination which saved people’s time of searching public information. Additionally, the chat robot will send a message to remind eligible people to get vaccinated at their nearby authorized clinics. “LINE @ chatbot - Disease Manager” will provide more services in the future to help CDC in achieving their goal of smart epidemic prevention through innovative AI technology.

### DeepQ Medical Encyclopedia

HTC DeepQ Healthcare business unit also launched a very useful web-based service: “DeepQ Medical Encyclopedia” in 2017, we are committed to provide the reliable and easy-to-understand content that is generally good to the public. Most of people are having difficulties to understand the professional medical articles/papers. Seeing the needs and perspectives of the general public, we created more than one thousand articles that are suitable for the general public to read, so that readers can quickly and accurately understand the definition, symptoms, etiology, diagnosis and treatment, as well as medicine reference. In the future, it will also be integrated with artificial intelligence and more medical services to become a powerful platform for healthcare where people and medical personnel may interact online.

## Business Development

### Smartphones

Short term - In terms of research and development of mobile phones, the company will keep committed to developing core technologies and expand our competitive edge in user experience. Accumulation of R&D capability in hardware and software. Multimedia experiences like HTC Boomsound, U-Sonic, Edge Sense as well as industry-leading camera performance will all be manifested in HTC’s evolution in flagship models again this year.

Long term - In terms of research and development of technologies in the 5G area, HTC has dedicated an engineering team in development and hands-on testing of 5G-Nr mmWave and Sub-6Ghz prototype and it is projected to conduct lab and field tests with worldwide carriers starting from the 4th quarter of 2018 with the aim of commercializing 5G technologies in 2019. Product-wise, we will combine 5G's advantages of low latency and big bandwidth as well as our AI, AR/VR technological prowess to combine cloud computing to break through the performance bottleneck of existing terminal products in order to expand applications of mobile products to even more of the different vertical areas.

## Virtual Reality

Short term - In the future we will create practical cases that would change the world in every field like health care, education and learning, and VR for Impact program. Compared to other media of the past, they can make people immersed in the experience and help us learn and then gain the same feeling that in a step further can change the whole world.

Long term - Considering that 5G will bring more innovations and changes, through the low latency transmission of 5G, we can provide high-quality content anywhere anytime. Coupled with integration of various kinds of big data, AI, VR, and AR will be important tools to unleash AI's most powerful strengths.

### R&D Expenditures in Recent Years

	Unit: NT\$ millions		
	2017	2016	2018Q1
Worldwide R&D Expenditures	10,440	10,957	2,643
As a Percentage of Worldwide Revenue	17%	14%	30%

## Corporate Governance

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

### Independent Director Positions Created

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

## Remuneration Committee Created

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

## Board of Supervisor Proceedings

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

## Disclosure of Information & Financial Forecasts

HTC has been working diligently to enhance the timeliness and transparency of financial disclosures. In addition to online disclosure of important data related to HTC's business in accordance with regulations to keep investors updated on the business operations. Apart from regular disclosures, HTC also participates in investor forums in Taiwan and overseas as well as proactively visits major investment houses and investors to enhance communication with the investment community.

## Stable Dividend Policies

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

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

### (1) Major suppliers representing at least 10% of gross purchase

Unit: NT\$ millions

2017			
Supplier Code	Amount	%	Relation to HTC
A	7,462	19	None
B	4,821	12	None
Others	27,830	69	
Total	40,113	100	

2016			
Supplier Code	Amount	%	Relation to HTC
A	7,301	15	None
Others	40,782	85	
Total	48,083	100	

2018Q1			
Supplier Code	Amount	%	Relation to HTC
A	1,033	20	None
Others	4,035	80	
Total	5,068	100	

### (2) Major customers representing at least 10% of gross revenue

Unit: NT\$ millions

2017			
Customer Code	Amount	%	Relation to HTC
A	28,107	45	None
Others	34,013	55	
Total	62,120	100	

2016			
Customer Code	Amount	%	Relation to HTC
A	16,374	21	None
Others	61,787	79	
Total	78,161	100	

2018 Q1			
Customer Code	Amount	%	Relation to HTC
A	3,828	44	None
Others	4,961	56	
Total	8,789	100	

## Production and Sales for the Most Recent Two-Year Period

### (1) Production

Unit: 1,000 units / NT\$ millions

	2017		
	Production Capacity	Production Quantity	Production Value
Smartphones and other items (accessories)	9,600	5,015	42,769
Total	9,600	5,015	42,769

	2016		
	Production Capacity	Production Quantity	Production Value
Smartphones and other items (accessories)	18,400	7,910	44,885
Total	18,400	7,910	44,885

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

### (2) Sales

Unit: 1,000 units / NT\$ millions

	2017			
	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	1,221	6,869	23,343	52,725
Total	1,221	6,869	23,343	52,725

	2016			
	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	1,812	9,844	26,833	65,920
Total	1,812	9,844	26,833	65,920

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

## Principal Contractual Agreements

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

Contractor	Contract Term	Description
Apple, Inc.	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.
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.
Google Inc.	September 21, 2017 - January 30, 2018	Certain HTC employees who are already working with Google Inc. to develop Pixel smartphones will join Google Inc. HTC will receive US\$1.1 billion in cash from Google Inc. as part of the transaction. Separately, Google Inc. will receive a non-exclusive license for HTC intellectual property.



# **CORPORATE GOVERNANCE**





# CORPORATE GOVERNANCE

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

### (1) Directors and Supervisors:

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

2018.04.28 unit: Share, %

Title	Nationality/ place of Registration	Name	Gender	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Sharing (Note)		Other persons holdingshares in their name(Note)	Principal work experience and academic qualifications	Positions held concurrently in the company and/ or and other company	Other executives, Directors and Supervisors who are spouses or within second-degree of kinship			
							Shares	%	Shares	%	Shares	%				Title	Name	Relation	
Chairwoman & CEO	Republic of China	Cher Wang	Female	2016.06.24	2019.06.23	1999.04.30	32,272,427	3.90%	32,272,427	3.93%	22,391,389	2.73%	0	0.00%	<ul style="list-style-type: none"> <li>CEO and President, HTC Corporation</li> <li>Chairwoman (Representative), H.T.C. (B.V.I) Corp.</li> <li>Chairwoman (Representative), HTC I Investment Corporation</li> <li>Chairwoman (Representative), HTC Investment Corporation</li> <li>Director (Representative), High Tech Computer Asia Pacific Pte. Ltd.</li> <li>Director, VIA Technologies, Inc.</li> <li>Director, Formosa Plastics Corporation</li> <li>Director, Way-Chih Investment Co., Ltd.</li> <li>Director, Hsin-Tong Investment Co., Ltd.</li> <li>Director, Kun-Chang Investment Co, Ltd.</li> <li>Director (Representative), Xander International Corp.</li> </ul>	Director	Wen-Chi Chen	Spouse	
Director	Republic of China	HT Cho	Male	2016.06.24	2019.06.23	2001.04.23	96,530	0.01%	96,530	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Electronic Engineering, National Taipei Institute of Technology.</li> <li>EMBA, National Chiao Tung University</li> <li>President &amp; CEO, HTC Corporation.</li> <li>Consulting Engineer, Digital Equipment Corporation.</li> <li>Director, China University of Technology</li> </ul>	<ul style="list-style-type: none"> <li>Chairman, HTC Social Welfare Foundation.</li> <li>Chairman, HTC Education Foundation.</li> <li>Director, Chunghwa Telecom Foundation.</li> <li>General Manager, Atrust Corporation</li> <li>Director, Asia Pacific Fuel Cell Technologies, Ltd.</li> <li>Chairman, Taiwan Chief Executive Officer Club for Social Benefit</li> </ul>	None	None	None
Director	Republic of China	Wen-Chi Chen	Male	2016.06.24	2019.06.23	1999.04.30	22,391,389	2.71%	22,391,389	2.73%	32,272,427	3.93%	0	0.00%	<ul style="list-style-type: none"> <li>MSCS, California Institute of Technology.</li> <li>President, Symphony Laboratories.</li> </ul>	<ul style="list-style-type: none"> <li>President &amp; Chairman, VIA Technologies, Inc.</li> <li>Chairman, Xander International Corp.</li> <li>Chairman (Representative), Chander Electronics Corp.</li> <li>Non-executive Director, Television Broadcasts Limited</li> <li>Director(Representative), TVBS Media Inc.</li> <li>Director, Way-Chih Investment Co., Ltd.</li> <li>Director, Hsin-Tong Investment Co., Ltd.</li> <li>Director, Kun-Chang Investment Co, Ltd.</li> <li>Chairman (Representative), VIA Labs, Inc.</li> </ul>	Chairwoman	Cher Wang	Spouse

(Continued)

2018.04.28 unit: Share, %

Title	Nationality/ place of Registration	Name	Gender	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Sharing (Note)		Other persons holdingshares in their name(Note)		Principal work experience and academic qualifications	Positions held concurrently in the company and/ or other company	Other executives, Directors and Supervisors who are spouses or within second-degree of kinship		
							Shares	%	Shares	%	Shares	%	%	%			Title	Name	Relation
Director	USA	David Bruce Yoffie	Male	2016.06.24	2019.06.23	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>• B.A. Brandeis University</li> <li>• M.A., Ph.D. Stanford University for academic qualification</li> <li>• Director, Charles Schwab</li> <li>• Director, Spotfire</li> <li>• Director, E Ink</li> <li>• Director, Intel Corporation</li> </ul>	<ul style="list-style-type: none"> <li>• Max and Doris Starr Professor at Harvard Business School</li> <li>• Director, The National Bureau of Economic Research</li> <li>• Director, Financial Engines, Inc.</li> </ul>	None	None	None
Independent Director	Republic of China	Chen-Kuo Lin	Male	2016.06.24	2019.06.23	2007.06.20	0	0.00%	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>• Bachelor in Economics, National Taiwan University.</li> <li>• Advanced study at the Department of Economics, Oklahoma State University.</li> <li>• Advanced study at the Department of Economics, Harvard University.</li> <li>• Chairman, Board of Tunghai University.</li> <li>• Minister, Ministry of Finance, Executive Yuan.</li> <li>• Chairman, Taiwan External Trade Development Council.(TAITRA)</li> <li>• Chairman, Taiwan Asset Management Corporation.</li> <li>• Professor, Department of Economics in National Taiwan University.</li> <li>• Chairman, Taiwan-Hong Kong Economic and Cultural Cooperation Council</li> <li>• Independent director and Compensation Committee member, Taiwan High Speed Rail Corporation.</li> </ul>	<ul style="list-style-type: none"> <li>• Compensation Committee member, HTC Corporation.</li> <li>• Chairman, Angel Hearts Family Social Welfare Foundation.</li> <li>• Chairman, New Mainstream Cultural Foundation.</li> </ul>	None	None	None
Independent Director	Swiss Confederation	Josef Felder	Male	2016.06.24	2019.06.23	2007.06.20	229,985	0.03%	300,000	0.04%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>• Graduate of Advanced Management Program (AMP), Harvard Business School, Boston</li> <li>• Deputy Director, Crossair</li> <li>• Chief Executive Officer, FIG (Flughafen Immobilien Gesellschaft)</li> <li>• Chief Executive Officer, Unique (Flughafen Zurich AG)</li> <li>• Chairman, The Nuance Group AG</li> <li>• Chairman, Zino Davidoff SA, Fribourg</li> </ul>	<ul style="list-style-type: none"> <li>• Independent Director, Flughafen Zürich AG, Zürich</li> <li>• Independent director, Careal Holding AG, Zurich</li> <li>• Independent director, AMAG, Zürich</li> <li>• Independent director, Edelweiss Air AG, Zurich</li> <li>• Independent director, Luzerner Kantonalbank AG, Lucerne</li> <li>• Independent Director, Zino Davidoff SA, Fribourg</li> <li>• Chairman, Gutsbetrieb Oetlishausen AG, Hohentannen</li> <li>• Chairman, Pro Juventute, Zurich</li> <li>• Chairman, Flaschenpost AG, Zürich</li> <li>• Chairman, Stöckli Swiss Sports AG, Wolhusen</li> </ul>	None	None	None
Supervisor	Republic of China	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	Male	2016.06.24	2019.06.23	1999.04.30 2006.04.13	43,819,290	5.29%	43,819,290	5.34%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>• Ph.D in Material Science and D.Eng in Electrical Engineering, UCLA.</li> <li>• Executive Vice President, Lam Research Co., Ltd.</li> <li>• Director, TVBS Media Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• Director, IC Broadcasting Co., Ltd</li> <li>• Vice President, Via Technologies, Inc.</li> <li>• Director, Chinese Christian Faith, Hope and Love Foundation.</li> <li>• Director, Via Faith, Hope and Love Foundation.</li> <li>• President, Chander Electronics Co., Ltd.</li> <li>• Chairman, FiberLogic Communications, Inc</li> </ul>	None	None	None
Supervisor	Republic of China	Huang-Chieh Chu	Male	2016.06.24	2019.06.23	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>• MBA, University of Toronto, Canada</li> <li>• LL.B., Department of Law, National Taiwan University</li> <li>• Director and President, Taiwan Teleservices &amp; Technologies Co., Ltd.</li> <li>• Supervisor, Taiwan Fixed Network Co., Ltd.</li> <li>• Vice President, Consumer Business Group of Taiwan Mobile Co., Ltd.</li> <li>• Vice President, Citibank, N.A., Taipei Branch</li> <li>• Director, KG Telecommunications Co., Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>• Chief Administrative Officer, Via Faith, Hope and Love Foundation.</li> </ul>	None	None	None

Note: Shareholding as of 2018.04.28

## 2. Major shareholders of Institutional Shareholders

2018.04.28

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

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

The Institutional Shareholder is a foundation, no major shareholders.

## 4. Directors' and Supervisors' Information (II)

2018.04.28

Name	Conditions	Meet one of the following professional qualification requirements, together with at least five years work experience	Conforms to criteria for independence (note)										Number of other public companies concurrently serving as an independent director			
			1	2	3	4	5	6	7	8	9	10				
Chairwoman	Cher Wang		V									V		V	V	0
Director	HT Cho		V									V		V	V	0
Director	Wen-Chi Chen		V									V		V	V	0
Director	David Bruce Yoffie	V	V									V		V	V	0
Independent Director	Chen-Kuo Lin	V	V									V		V	V	0
Independent Director	Josef Felder		V									V		V	V	0
Supervisor	Way-Chih Investment Co., Ltd. (Representative: Shao-Lun Lee)											Not Applicable				
Supervisor	Huang-Chieh Chu		V									V		V	V	0

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

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

## (2) General Manager, Assistant General Managers, Deputy Assistant General Managers, and Managers of all divisions and branch units:

2016.04.30 Unit: Share; %

Title	Nationality	Name	Gender	Date Elected	Shareholding (note 1)		Spouse & Minor Shareholding (note 1)		Other persons holding shares in their name (note 1)		Principal work experience and academic qualifications	Positions held concurrently in the company and/or other company	Managers with spouses or relatives within second-degree of kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairwoman & CEO	Republic of China	Cher Wang	Female	2015.03.20	32,272,427	3.93%	22,391,389	2.73%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Economics, University of California, Berkeley.</li> <li>General Manager of the PC Division, First International Computer, Inc. (FIC)</li> </ul>	<ul style="list-style-type: none"> <li>Chairwoman (Representative), H.T.C. (B.V.I) Corp.</li> <li>Chairwoman (Representative), HTC Investment One (BVI) Corporation</li> <li>Chairwoman (Representative), HTC I Investment Corporation</li> <li>Chairwoman (Representative), HTC Investment Corporation</li> <li>Director (Representative), High Tech Computer Asia Pacific Pte. Ltd.</li> <li>Director, VIA Technologies, Inc.</li> <li>Director, Formosa Plastics Corporation</li> <li>Director, Way-Chih Investment Co., Ltd.</li> <li>Director, Hsin-Tong Investment Co., Ltd.</li> <li>Director, Kun-Chang Investment Co, Ltd.</li> <li>Director (Representative), Xander International Corp.</li> </ul>	Director	Wen-Chi Chen	Spouse
Chief Technology Officer	Republic of China	WH Liu	Male	2008.06.01	118,675	0.01%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Master in Electronic Engineering, National Taiwan University of Science and Technology.</li> <li>The Chinese University of Hong Kong EMBA</li> <li>Senior Manager, WM System Architecture Design.</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), HTC Communication Technologies (Shanghai) Limited</li> </ul>	None	None	None
General Counsel	USA	Marcus Woo	Male	2014.10.31	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>PhD in Law, Indiana University</li> <li>Vice President, Chunghwa Picture Tubes</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), HTC Investment Corporation</li> <li>Director (Representative), High Tech Computer Asia Pacific Pte. Ltd.</li> <li>Director (Representative), S3 Graphics Co., Ltd.</li> <li>Director (Representative), HTC Europe Co., Ltd.</li> <li>Director (Representative), HTC VIVE Tech Corporation</li> <li>Director (Representative), HTC VIVE TECH (UK) Limited</li> <li>Director (Representative), DeepQ Technology Corp.</li> <li>Director (Representative), Uomo Vitruviano Corp.</li> </ul>	None	None	None
Chief Financial Officer	USA	Peter Shen	Male	2016.06.20	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>M.S. in Business Administration, University of Colorado</li> <li>Chief Financial Officer, Inotera Memories, Inc.</li> <li>Vice President, Finance, Micron Technology, Inc.</li> <li>Financial Director, Jabil Circuit</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), HTC Investment Corporation</li> <li>Director (Representative), HTC Communication Co., Ltd.</li> <li>Director (Representative), HTC Holding Cooperatief U.A</li> <li>Director (Representative), HTC Electronics (Shanghai) Co., Ltd.</li> <li>Director (Representative), HTC EUROPE CO., LTD.</li> <li>Director (Representative), HTC America Holding Inc.</li> <li>Director (Representative), HTC America Inc.</li> <li>Director (Representative), HTC VIVE Holding (BVI) Corp.</li> <li>Director (Representative), HTC VIVE TECH (BVI) CORP.</li> <li>Director (Representative), HTC VIVE INVESTMENT(BVI) Corp</li> <li>Chairman (Representative), HTC VIVE Tech Corporation</li> </ul>	None	None	None
Vice President	Republic of China	Crystal Liu (note 2)	Female	2012.04.24	0	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>MBA, National Taiwan University</li> <li>MBA, Oklahoma City University.</li> <li>HR Director, DuPont</li> <li>APAC Business Group HR Manager, Intel Microelectronics Asia Ltd.</li> <li>HR Manager, BRS Nike Taiwan</li> </ul>	<ul style="list-style-type: none"> <li>Director, HTC Middle East FZ-LLC</li> </ul>	None	None	None
Associate Vice President	Republic of China	Hsiu Lai	Female	2015.09.16	25,157	0.00%	0	0.00%	0	0.00%	<ul style="list-style-type: none"> <li>Bachelor in Finance, National Taiwan University</li> <li>Master in Law, National Chengchi University</li> <li>MBA, University of Southern California</li> <li>Director of Finance &amp; Accounting Division, LITE-ON TECHNOLOGY CORP</li> </ul>	<ul style="list-style-type: none"> <li>Director (Representative), HTC America Innovation, Inc.</li> <li>Supervisor, HTC Corporation (Shanghai WGO)</li> <li>Supervisor, HTC Electronics (Shanghai) Co., Ltd.</li> <li>Supervisor (Representative), High Tech Computer (SuZhou)</li> <li>Supervisor, HTC Communication Technologies (Beijing) Co. Limited</li> <li>Supervisor, HTC Communication Co., Ltd.</li> <li>Supervisor, HTC Communication Technologies (Shanghai) Limited</li> <li>Supervisor, HTC Investment Corporation</li> </ul>	None	None	None

Note 1: Shareholding as of 2018.04.28.

Note 2: Crystal Liu released as insider manager on May 31, 2018.

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

#### 1. emuneration paid to Directors (including Independent Director)

2017; Unit: NT\$ thousands

		Remuneration paid to Directors										Compensation earned as employee of HTC subsidiary affiliates												
		Salary (A)(Note 1)				Retirement pay (B)		Remuneration (C) (Note 2)		Allowance (D) (Note 3)		Total Remuneration (A+B+C+D) as a percentage of net income (%)	Salary, Bonuses, and Allowance (E)(Note 4)				Retirement pay (F)		Employee compensation (G) (Note 5)		Total Compensation (A+B+C+D+E+F+G) as a percentage of net income (%)			
Title	Name	All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		
		HTC		HTC		HTC		HTC		HTC		HTC		HTC		Cash	Stock	Cash	Stock	HTC		HTC		
Chairwoman	Cher Wang	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Director	HT Cho	3,500	3,500	0	0	0	0	0	0	-0.02	-0.02	0	0	0	0	0	0	0	0	-0.02	-0.02	0	0	0
Director	Wen-Chi Chen	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Director	David Bruce Yoffie	12,326	12,326	0	0	0	0	0	0	-0.07	-0.07	0	0	0	0	0	0	0	0	-0.07	-0.07	0	0	0
Independent Director	Chen-Kuo Lin	3,500	3,500	0	0	0	0	0	0	-0.02	-0.02	0	0	0	0	0	0	0	0	-0.02	-0.02	0	0	0
Independent Director	Josef Felder	9,629	9,629	0	0	0	0	0	0	-0.06	-0.06	0	0	0	0	0	0	0	0	-0.06	-0.06	0	0	0

Note 1: Directors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)

Note 2: The amount proposed for distribution to Directors as compensation, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year.

Note 3: Expenses relating to business execution by directors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).

Note 4: All salary, allowances, severance pay, various bonuses, cash rewards, transportation allowances, special allowances, various material benefits, accommodations, and personal cars received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers and employees) in the preceding fiscal year.

Note 5: Planned amount of employee compensation when Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) received employee compensation (including stock and cash) in the most recent fiscal year.

Note 6: Total amount of all remunerations paid to Directors by all consolidated entities (including HTC).

Note 7: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by Directors in their capacity as Director, Supervisor, or managerial officer of a non-subsiary affiliate.

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

#### 2. Remuneration paid to Supervisors

2017; Unit: NT\$ thousands

		Remuneration paid to Supervisors						Total Remuneration (A+B+C) as a percentage of net income (%)		Compensation paid to Supervisors
		Salary (A) (Note 1)		Remuneration (B) (Note 2)		Allowance (C) (Note 3)		All Consolidated Entities (Note 4)		All Consolidated Entities (Note 5)
Title	Name	All Consolidated Entities (Note 4)		All Consolidated Entities (Note 4)		All Consolidated Entities (Note 4)		All Consolidated Entities (Note 4)		All Consolidated Entities (Note 5)
		HTC		HTC		HTC		HTC		HTC
Supervisor	Huang-Chieh Chu	1,750	1,750	0	0	0	0	-0.01	-0.01	0
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	1,944	1,944	0	0	0	0	-0.01	-0.01	0

Note 1: Supervisors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)

Note 2: The amount proposed for distribution to Supervisors as remuneration, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year.

Note 3: Expenses relating to business execution by Supervisors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).

Note 4: The total amount of all remunerations paid to Supervisors by all consolidated entities (including HTC).

Note 5: Remunerations refer to salary, compensation, and allowances relating to the conduct of business received by Supervisors in their capacity as Director, Supervisor, or managerial officer of a non-subsiary affiliate.

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

### 3. Remuneration paid to General Manager and Assistant General Managers

Remuneration paid to General Manager and Assistant General Managers

Title	Name	Salary (A) (Note 1)		Retirement pay (B) (Note 2)		Bonus & Perquisite (C) (Note 3)		Employee profit sharing (D) (Note 4)				Total Remuneration (A+B+C+D) as a percentage of net income (%)		Exercisable Employee Stock Options (Note 5)		Restricted employee shares (Note 8)		Compensation paid to President & Vice Presidents from non-subsiary affiliates (Note 7)	
		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)		All Consolidated Entities (Note 6)					
		HTC	All Consolidated Entities (Note 6)	HTC	All Consolidated Entities (Note 6)	HTC	All Consolidated Entities (Note 6)	Cash	Stock	Cash	Stock	HTC	All Consolidated Entities (Note 6)	HTC	All Consolidated Entities (Note 6)				
Chief Technology Officer	WH Liu																		
General Counsel	Marcus Woo																		
Chief Financial Officer	Peter Shen																		
Associate Vice President	Hsiu Lai	48,891.40	57,110.02	2,244.50	2,574.95	106,797.50	114,079.81	0	0	0	0	N/A	N/A	3570 (thousands shares)	3570 (thousands shares)	1592 (thousands shares)	1592 (thousands shares)	N/A	
President of Smartphone & Connected Devices Business (Note a)	Chialin Chang																		
Chief Operation Officer (Note b)	David Chen																		
Vice President (Note c)	Crystal Liu																		

Note 1: General Manager and Assistant General Managers' compensations in the most recent fiscal year include salary, allowances, and severance pay.

Note 2: Pensions funded according to applicable law.

Note 3: Various awards, bonuses, transportation allowances, special allowances, special subsidies, accommodations, and personal cars by General Manager and Assistant General Managers in the most recent fiscal year. The appropriated employee incentive and retention bonuses are estimated amount.

Note 4: The amount proposed to distribute to General Manager and Assistant General Managers as employee compensation (including stock and cash), as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year.

Note 5: Number of shares represented by employee stock warrants (not including the portion already exercised) received by General Manager and Assistant General Managers up to the date of printing of this annual report.

Note 6: Total amount of all remunerations paid to General Manager and Assistant General Managers by all consolidated entities (including HTC).

Note 7: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by General Manager and Assistant General Managers in their capacity as director, supervisor, or managerial officer of a non-subsiary affiliate.

Note 8: Since the Company did not issue restricted employee shares up to the date of printing of this annual report, the number in this column is not applicable.

Note 9: This chart lists persons who have served as HTC's General Manager and Assistant General Managers on 31 December 2017.

Note a: Chialin Chang was relieved from the position of insider manager on 14 February 2018.

Note b: David Chen was relieved from the position of insider manager on 30th January 2018.

Note c: Crystal Liu was relieved from the position of insider manager on 31th May 2018.

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

### Remuneration paid to General Manager and Assistant General Managers

Scale of remunerations to managers of the Company	Name	
	HTC (Note)	All Consolidated Entities (Note)
Under NT\$ 2,000,000		
NT\$ 2,000,000 - NT\$ 4,999,999	3 (Note 1)	2 (Note 2)
NT\$ 5,000,000 - NT\$ 9,999,999		
NT\$ 10,000,000 - NT\$ 14,999,999	2 (Note 3)	3 (Note 4)
NT\$ 15,000,000 - NT\$ 29,999,999		
NT\$ 30,000,000 - NT\$ 49,999,999	2 (Note 5)	2 (Note 5)
NT\$ 50,000,000 - NT\$ 99,999,999		
Over NT\$ 100,000,000		
<b>Total</b>	<b>7</b>	<b>7</b>

Note 1: Peter Shen, Crystal Liu, Hsiu Lai

Note 2: Crystal Liu, Hsiu Lai

Note 3: WH Liu, Marcus Woo

Note 4: WH Liu, Marcus Woo, Peter Shen

Note 5: Chialin Chang, David Chen

#### 4. Employee profit sharing granted to Management Team

None.

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

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

Title	Total remuneration as a percentage of net income				Increases or decreases %	
	2016		2017 (Note)		(Note)	
	HTC	All Consolidated Entities	HTC	All Consolidated Entities	HTC	All Consolidated Entities
Directors	N/A	N/A	N/A	N/A	N/A	N/A
Supervisors	N/A	N/A	N/A	N/A	N/A	N/A
President and Vice Presidents	N/A	N/A	N/A	N/A	N/A	N/A

Note: Net income with negative numbers in fiscal 2016 and 2017.

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

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

### (1) The state of operations of the Board of Directors:

The Eighth Board of Directors conducted 7(A) meetings in 2017. The Directors and Supervisors' attendance status is as follows:

Title	Name	Attendance in Person B	By Proxy	Attendance Rate in Person (%) [ B / A ]	Notes
Chairwoman	Cher Wang	7	0	100%	
Director	Wen-Chi Chen	7	0	100%	
Director	HT Cho	6	1	85.71%	
Director	David Bruce Yoffie	4	3	57.14%	
Independent Director	Chen-Kuo Lin	6	1	85.71%	
Independent Director	Josef Felder	5	2	71.43%	
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	5	0	71.43%	
Supervisor	Huang-Chieh Chu	7	0	100%	

Other matters to be included:

1. If there are the circumstances referred to in Article 14-3 of Securities and Exchange Act and resolutions of the directors' meetings objected to by Independent Directors or subject to qualified opinion and recorded or declared in writing and other objections by Independent Directors or reserved opinions and records or resolutions of board of directors' written statement except above section , the dates of meetings, sessions, contents of motions, all independents' opinion and the Company's response to independent directors' opinion should be specified as below.

Board of Director	Content	Article 14-3 of Securities and Exchange Act	reserved or opposed opinions
2017.03.06 (8-4)	Report on Company's derivative transactions for fourth quarter 2016 Proposal to amend the Company's "Procedures for the Acquisition or Disposal of Assets"	✓	-
2017.05.05 (8-6)	Report on Company's derivative transactions for first quarter 2017	✓	-
2017.07.28 (8-8)	Report on Company's derivative transactions for second quarter 2017 Proposal on the release of Company's internal audit officer	✓	-
2017.09.21 (8-9)	Proposal to execute a Business Cooperation Agreement with Google.	✓	-
2017.10.30 (8-10)	Report on Company's derivative transactions for third quarter 2017	✓	-

2. There was no Directors' abstention from discussion due to conflicts of interests in 2017.
3. Measures taken to strengthen the functionality of the Board of Directors and the status of implementation during current and preceding fiscal years:
  - (1) At the time of end-of-term elections for Directors and Supervisors in the 2016 fiscal year, HTC selected two Independent Directors in accordance with the provisions of the Securities and Exchange Act in order to strengthen the independence and functions of Directors and enhance the operational effectiveness of the Board. In 2014, the "Corporate Governance Principles" were completed and adopted, guaranteeing that the Board of Directors has the authority to independently supervise corporate operations and to make all decisions necessary to fulfill its responsibilities to shareholders and to society.
  - (2) In compliance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose stock is listed on the Stock Exchange or Traded Over-the-Counter" as per Letter No.1000009747 issued by the Financial Supervisory Commission of the Executive Yuan on March 18, 2011, the Board of Directors resolved to adopt the Company's Compensation Committee Charter and the Committee shall consist of three members who are appointed by resolution of the board of directors. The current third remuneration committee members are independent director Mr. Chen-Kuo Lin; independent professional advisors, Mr. Wei Ti-Hsiang and Mr. Yeong-Cheng Wu. The official functions of the Committee are to professionally and objectively evaluate the policies and systems for the compensation of HTC directors, supervisors, and managers, and submit recommendations to the Board of Directors for its reference in decision making.
  - (3) Currently, prior to the establishment of the audit committee, some of the committee's functions are performed by the Supervisors meetings. Regular Supervisors meetings are convened on a quarterly basis to hear reports on important financial, legal, and internal audit matters. There is also a joint assessment between the Supervisors and CPA on the principles and appropriateness of various allowances and reserves in the financial statements.
  - (4) HTC has also been endeavoring in recent years to enhance the timeliness and transparency of its information disclosure. In addition to making timely posting of important financial and business information on the Market Observation Post System in accordance with regulations to allow investors timely access the information on the company's operations and performance. The HTC Investor Relations Website also set up the corporate governance page along with disclosures of financial information.

## (2) Supervisor participation in Board of Directors meetings

The Eighth Board of Directors conducted 7 (A) meetings. The Supervisors' attendance status is as follows:

Title	Name	Attendance in Person B	Attendance Rate(%) [ B / A ]	Notes
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	5	71.43%	
Supervisor	Huang-Chieh Chu	7	100%	

Other matters to be included:

### 1. Composition and Responsibilities of Supervisors:

The structure of the Supervisors' Meetings at HTC is well established and it carries out some functions at the audit committee.

- (1) Supervisor communication with employees and shareholders (e.g., channels and methods of communication) Supervisors can make use of channels such as Supervisors Meetings, Board of Directors meetings, Shareholders Meetings, and internal audit reports to communicate with management-level officers and with shareholders.
- (2) Supervisor communication with Chief Internal Auditor and CPAs (e.g., financial and operational matters on which they communicate, their methods, and results)

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

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

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

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

2. If Supervisors in attendance at a Board meeting state opinions, the meeting date, session number, agenda, and result of resolutions must be noted, along with the company's handling of the Supervisors' opinions.

There has been no instance of a Supervisor expressing a dissenting opinion regarding a Board resolution during the most recent fiscal year.

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

Item	Implementation Status		Reason for Non-implementation
	YES	NO	
1. Whether the company has adopted and revealed principles for practice of corporate governance in accordance with "Corporate Governance Best Practice Principles for TWSE/ GTSM Listed Companies"?	v	In 2014, HTC adopted the "HTC Corporate Governance Principles". Its provisions are based on the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies and are announced in the English and Chinese investor relations websites.	None
2. Shareholding Structure & Shareholders' Rights			
(1) Whether the company has the internal operation procedures of handling shareholder suggestions, questions, lawsuits or complaints, and proceed by complying with the procedures.	v	To protect shareholders' interests, HTC has appointed spokesperson and acting spokesperson to properly handle any questions, suggestions, or disputes involving shareholders.	None
(2) Whether the company understands the major shareholders and the ultimate owners of these major shareholders.	v	The Company has a good understanding of its major shareholders through shareholder registers provided by stock agents at book closures. HTC also provides information regularly on pledges and the increase and decrease in shareholdings of shareholders with a more than 10% stake in the company.	None
(3) Whether the company sets up and executing of risk management mechanism and "firewalls" between the company and its affiliates	v	The division of responsibilities between HTC and its affiliates with respect to management of personnel, resources, and finances is clear. Risk assessments are rigorously performed and appropriate firewalls have been established. HTC conducts business with affiliates based on the principles of fairness and reasonableness and fully observe the operating Procedures for transactions with Specific Companies, Enterprise Groups and Related Parties and other related regulations. Terms and conditions, pricing, and payment methods are clearly prescribed in contracts to avoid non-arms-length transactions and financial tunneling. When it is necessary to eliminate non-competition restrictions on directors and managerial officers, requests are duly submitted to the Shareholders' Meeting and Board for approval.	None
(4) Whether the company has adopted internal rules to forbid against use of unpublicized information in the market by internal staffs for purchase of priced stocks?	v	The company has adopted the "Operational Procedures for Handling Material Inside Information and Preventing Insider Trading". It governs purchase and sale of priced stocks by internal staffs.	None
3. Composition and Responsibilities of the Board of Directors			
(1) Whether the Board of Directors has adopted guidelines for diversity of composing members and has put the guidelines into full practice?	v	In the "Principles for practice of corporate governance", the company has specified that knowledge, skills, and trainings be considered when nominating a Board member and Supervisor. The Directors of the Company possess various professional specialties and substantial experiences. There is currently 1 female director, directors of the qualifications, gender, professional qualifications and work experience, please refer to the corporate governance report 4. Directors and Supervisors.	None
(2) Whether the company is willing to set up various other functional committees, in addition to the committees for salaries/compensations and auditing set up according to the law?	v	For the purpose of developing supervision functions and strengthening management mechanisms, the Board of Directors of the Company may, taking into account the size of the Board and the number of the Independent Directors, set up remuneration or any other functional committees.	Considering the number of the Independent Directors, HTC has only set up the remuneration committees.
(3) Whether the company has adopted rules and methods for assessment on performances of the Board that will be carried out annually on a regular basis?	v	The company has adopted "Rules Regarding Organization for the Salary and Compensation Committee" where rules and methods are specified for assessment on performance of the Board. Under periodic reviews are annual and long-term goals for performance of the Board, as well as policies, rules, standards, and structures for the salary and compensation.	None

(Continued)

Item	Implementation Status		Reason for Non-implementation
	YES	NO	
3. Composition and Responsibilities of the Board of Directors			
(4) Whether the company will regularly assess independence of its certified accountants?	v	In 2008, HTC started to have its Supervisors review the independence of CPAs on an annual basis. Prior to submitting a proposal to change CPA to the Board, the CPA will be interviewed and his credentials reviewed by the Supervisors to assess his independence.	None
4. Whether the company has set up a full-time or part-time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors and supervisors, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders meetings)	v	HTC has set up corporate governance unit and personnel to be in charge of corporate governance affairs to furnishing information required for business execution by directors and supervisors, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders meetings.	
5. Whether the company has established a channel for communicating with Stakeholders (including but not limited to shareholder, employee, customer and supplier, etc.), set up a section for Stakeholders on the company website, and properly responded to important topics regarding corporate social responsibilities that Stakeholder care about?	v	HTC provides detailed contact information, including telephone numbers and email addresses, in the "contact us" section of its corporate website. We also have personnel in place to exclusively deal with messages to the spokesperson and investor mailboxes so that various interested parties will have channels to communicate with HTC.	None
6. Whether the company has delegated a professional shareholder services agency for handling AGM affairs?	v	The company has delegated CTBC Bank Co., Ltd. to be the shareholder service agency for handling AGM affairs.	None
7. Information Disclosure			
(1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance	v	HTC has both Chinese and English websites. HTC Investors pages provide information on financial and business and corporate governance, while PRODUCTS pages provide information relating to our products and services.	None
(2) Other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)	v	HTC has English and Chinese investor relations websites. Dedicated personnel have been assigned to collect and update information to websites. Chief Financial Officer Peter Shen has been appointed spokesperson and a spokesperson email address has been established.	None

(Continued)

Item	Implementation Status		Reason for Non-implementation
	YES	NO	
8. Other important information helpful to understanding HTC's corporate governance practices (including but not limited in employee rights and interests, employee care, investor relations, supplier relations and rights of Stakeholders, professional development of the Board of Directors, Supervisors, and managerial officers, status of implementation of risk management policies and standards for measurement of risk, status of customer-protection policy implementation, and liability insurance provided by HTC to the Board of Directors and Supervisors) :	v	<p>(1) Employee rights and interests and employee care</p> <p>HTC's employee code of conduct provides rules and guidelines for employees to follow when involved in company operations. All employees of the company and its branches and subsidiaries, regardless of their position, level, or location, need to abide by this code of conduct. Any unlawful conduct, either at the company or otherwise is prohibited.</p> <p>HTC is committed to providing a safe and healthy work environment, to respecting individuals and offering fair equality of opportunity, and to protecting company assets and personal information.</p> <p>In relations with customers and suppliers, HTC commits to maintaining long-term relationships on a fair and reasonable basis in order to create win-win partner relationships. In the Conflicts of Interest section in "HTC's Code of Conduct", HTC provides principles of conduct to guide employees.</p> <p>HTC's hiring policies comply with the relevant laws and regulations and provide fair opportunities to applicants. Hiring decisions are based on HTC's operational needs, nature of the work, and applicants' abilities. Fair opportunities are provided to both applicants and employees. There will be absolutely no discrimination on the basis of nonwork-related factors, such as race, skin color, social position, language, belief, religion, political affiliation, family origin, gender, sexual orientation, marital status, appearance, facial features, mental or physical disabilities, previous union affiliation, or any other factor protected by government order.</p> <p>HTC management adheres firmly to the principles of respect for the individual, good faith, and responsibility. These principles are applied (but not limited) to recruitment, hiring, training, promotion, pay scales, benefits, transfers, and community activities.</p> <p>HTC is committed to providing employees with a working environment free of discrimination or harassment (including sexual harassment). Any form of speech or conduct intended to incite hatred, conduct which could lead to accidental injury, or discrimination, will be immediately reported to the responsible department for investigation and punishment.</p> <p>In addition to complying with legal requirements, HTC respects the privacy of its employees and protects their personal information, and never arbitrarily discloses personal data of employees. Employees are also expected to abide by this principle in their interactions, and to avoid discussing private matters or secret information of others (including but not limited to salary and bonus information).</p> <p>(2) Investor relations</p> <p>HTC carries out its responsibility in the area of investor relations by endeavoring to enhance the transparency and timeliness of information disclosure. In addition to immediate announcement of material information and information disclosure.</p> <p>In addition to the regularly scheduled information disclosures above, HTC also participates in investment seminars held by local and overseas securities firms and investor/press conferences; and arranges meetings with domestic and foreign investors in order to further explain financial figures and operational results that have already been publicly released. Also, more than ten international securities houses routinely publish analyst reports on HTC, providing investors with independent, professional investment analyses.</p> <p>(3) Supplier relations and rights of interested parties</p> <p>HTC has adopted "Procedures for Transactions with Specific Companies, Group Enterprises, and Related Parties and Supplier Integrity Commitment Letter" to guarantee the rights and interests of HTC and interested parties. Purchasing contracts are also signed with suppliers to govern to transactions and cooperative efforts to protect the lawful rights and interests of all parties.</p> <p>(4) Professional development of the Board of Directors, Supervisors, and managerial officers:</p> <p>HTC's Board of Directors and Supervisors voluntarily attend seminars held by professional training institutes as required by law and regulation. In addition, to further strengthen implementation of corporate governance, regular courses are also planned on finance, business, commerce, law, and accounting subjects that are related to corporate governance, as well as courses on internal control and responsibility in connection with preparation of financial reports. Details of professional development courses taken by the Board of Directors, Supervisors, and managerial officers for 2017 can be found in Appendixes 1 and 2.</p>	

(Continued)

Item	Implementation Status		Reason for Non-implementation
	YES	NO	
8. Other important information helpful to understanding HTC's corporate governance practices (including but not limited in employee rights and interests, employee care, investor relations, supplier relations and rights of Stakeholders, professional development of the Board of Directors, Supervisors, and managerial officers, status of implementation of risk management policies and standards for measurement of risk, status of customer-protection policy implementation, and liability insurance provided by HTC to the Board of Directors and Supervisors) :		<p>(5) Status of implementation of risk management policies and standards for measurement of risk:            HTC has adopted relevant risk management policies and standards for measurement of risk, and has established a dedicated unit to carry out risk management and risk measurement. With respect to implementation, HTC has reassessed its business risks after transitioning into a brand company. Risk factors are also reflected in financial statement items such as bad debts and warranty reserves which are reviewed by Supervisors and CPAs to ensure they are reasonable and appropriate.</p> <p>HTC's management of potential risk associated with promotion of its global brand is explained below:</p> <ol style="list-style-type: none"> <li>Exchange rate risk: Foreign exchange movements are monitored and managed / hedged by dedicated personnel. Reserves for on-book liabilities are valued at the exchange rate on the balance sheet date, reducing as much as possible the effects of currency fluctuations on HTC's business and finances.</li> <li>Receivables risk: Receivables risk is managed effectively by the finance department to ensure receivables quality and lower the risk of bad debt.</li> <li>Management of idle inventory: In addition to enhancing supplier management and demand forecast, idle inventory is attended to early and reserves for loss taken in an appropriate manner.</li> <li>Global tax risk: To comply with global tax compliance, our company engaged with international tax advisory for periodical review.</li> <li>Product design quality: To ensure quality of design, HTC has established a department for design quality, which is exclusively responsible for control and management of quality in hardware and software, product safety, and conformance with environmental regulations around the world. The department provides a complete range of product testing and certification.</li> </ol> <p>(6) Status of customer-protection policy implementation:            HTC strictly abides by the contracts it signs with customers to protect consumer rights and interests. Regular deliberation on and assessment of the Product Warranty Reserve for after-sales services ensures that allocations made to such reserves are reasonably sufficient and warranty responsibilities of the Company are adequately expressed.</p> <p>(7) Liability insurance provided by HTC to the Board of Directors and Supervisors:            Currently, HTC has purchased Liability Insurance for the Board of Directors, Supervisors, and key personnel (please see Appendix 3 for details), thereby transferring the risk arising from erroneous or improper conducts by Directors, Supervisors, or key personnel.</p>	
9. Please indicate the improvement of the results of the Corporate Governance Evaluation System issued by the Company's Corporate Governance Center of the Taiwan Stock Exchange Co., Ltd. in the last year and provide priority measures and measures for those who have not yet improved. HTC improved the Company's assessment of the fourth corporate governance Or priority to improve the response measures, as follows: (1) The company has fully disclosed the various policies for the composition of Board of Directors in the annual report and website. (2) The company has fully disclosed the Independent Directors' opinions on the major resolutions of the board of directors and the company's handling of the opinions of independent directors in the annual report.			

## Appendix 1: Continuous Education/Training of the Board of Directors and Supervisors

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Chairwoman & CEO	Cher Wang						
Director	Wen-Chi Chen						
Independent Director	Chen-Kuo Lin	2017.07.28	2017.07.28	Taiwan Corporate Governance Association	The latest development of the Taiwan Insider Trading and avoidance	3	
Supervisor	Huang-Chieh Chu						
Supervisor	Shao-Lun Lee						

## Appendix 2: Continuous Education/Training of Management Team

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Chief Technology Officer	WH Liu						
General Counsel	Marcus Woo	2017.07.28	2017.07.28	Taiwan Corporate Governance Association	The latest development of the Taiwan Insider Trading and avoidance	3	
Chief Financial Officer	Peter Shen						
Associate Vice President	Hsiu Lai	2017.04.17	2017.04.18	Accounting Research and Development Foundation	Continually training for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12	

## Appendix 3: Board of Directors, Supervisors and Key Personnel Liability Insurance

No	Insured Object	Insurance Company	Insured Amount	Insurance Period	Notes
1	All Directors, Supervisors and juristic person directors' representatives at investee companies and key personnel appointed by HTC	Fubon Insurance Co., Ltd.	US\$: 35,000,000	From: 2016.03.15 To: 2017.03.15	Renewal
2	All Directors, Supervisors and juristic person directors' representatives at investee companies and key personnel appointed by HTC	Fubon Insurance Co., Ltd.	US\$: 35,000,000	From: 2017.03.15 To: 2018.03.15	Renewal

## (4) Formation, scope of duties and operation of the Compensation Committee

### 1. Compensation Committee Members' Information

2018.04.28

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

Note: Compensation Committee members, during the two years before being elected or during the term of office, meet any of the following criteria:

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

### 2. The State of Operations of The Compensation Committee

1. Numbers of the Compensation Committee members: 3 persons.
2. Terms of Office of the Third Compensation Committee: from 2 August 2016 to 23 June 2019. The Compensation Committee conducted 2 (A) meetings in 2016.

Title	Name	Attendance in Person(%)		Notes
		Attendance in Person (B)	By Proxy	
Convener	Chen-Kuo Lin	2	0	100%
Member	Yeong-Cheng Wu	2	0	100%
Member	Ti-Hsiang Wei	2	0	100%

Other matters to be included:

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

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

## (5) HTC's exercise of corporate social responsibility:

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

Item	Implementation Status		Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies
	Yes	No		
1. Implementation of Corporate Governance				
(1) Whether the company adopted corporate social responsibility policies and systems, and its examination of the effectiveness of their implementation?	v		HTC's commitment to the development of corporate social responsibility is outlined on our global website (www.csr.htc.com). HTC has set out an employee code of conduct and supplier code of conduct, and policies relating to environmental safety and health, carbon reduction, energy management, etc. It is the duty of each department to implement and review the effectiveness of each policy.	None
(2) Whether the company holds the corporate social responsibility training and education periodically?	v		HTC holds training for new employees on their first day of work, introducing corporate policy, the employee code of conduct, environmental safety and health policy as well as our corporate social responsibility philosophy. And the training on CSR is executed periodically.	None
(3) Whether the operational status of the unit established by the company with exclusive or concurrent responsibility for CSR matters. The higher-level management is authorized by the Board of Directors to handle the matter and report to the Board on its handling?		v	The CSR department is responsible for the planning and implementation of HTC's CSR activities, and attends Electronic Industry Citizenship Coalition (EICC) meetings on behalf of HTC. (The Electronic Industry Citizenship Coalition (EICC) is now the Responsible Business Alliance (RBA))  Promotion and enhancement of awareness internally and externally: 1. Audit suppliers to determine adherence to EICC guidelines. 2. Suppliers must sign HTC Supplier Code of Conduct. 3. Periodic disclosure of HTC's corporate social responsibility operational status.  The higher-level management has not yet been authorized by the Board of Directors to handle CSR-related matters, with no current practice of reporting to the Board on the handling of CSR.	The higher-level management has not yet been authorized by the company to handle CRS-related matters. Annually report CSR affairs to supervisors.
(4) Whether the company adopted a fair and reasonable salary and compensation policy, integrated CSR into employee performance evaluation system, and instituted a clear and effective reward and punitive system?		V	The company has an open and transparent performance appraisal system. At the end of each year, as part of the employee's performance appraisal process, the employee must finalize next year's learning plan and also communicate next year's work goals as well as learning plan with their supervisor. Not only does this enhance the employee's professional skills, it also assists them to develop additional skills and knowledge. Only CSR has not yet been integrated into employee performance evaluation system. Also not yet instituted is a clear and effective reward and punitive system.	The company has instituted a fair and reasonable performance evaluation system that only CSR policy has not yet been integrated into.
2. Develop a sustainable environment				
(1) Whether the company exerts to improve its efficiency in the utilization of all resources and the use of recycled materials with low environmental impact?	v		In 2006 HTC began studying how to integrate the Life Cycle Thinking (LCT) concept into their development processes so as to provide R&D engineers with quantitative green information. In 2010 the company participated in a project led by the Ministry of Economic Affairs' Industrial Development Bureau. This sustainable industrial development counseling project focused on the lifecycle inventory (LCI) of the supply chain and established a database of key components in products and their impact on the environment. R&D engineers can reference this information in the development of green products.  In terms of packaging, HTC currently uses highly recycled packaging materials that are corrugated and renewable. Corrugated packaging is composed of 85-90% recycled pulp with the rest discarded after use. This type of packaging material is 100% recyclable and biodegradable. Renewable packaging is made of 65% sugar cane bagasse and 35% bamboo pulp.	None

(Continued)

Item	Implementation Status		Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
	Yes	No		
<b>2. Develop a sustainable environment</b>				
(1) Whether the company exerts to improve its efficiency in the utilization of all resources and the use of recycled materials with low environmental impact?	v		In terms of power usage, all of the power supplies that come with HTC's products conform to international standards such as the US Energy Star, California Energy Commission, and the EU Code of Conduct on Energy Efficiency of External Power Supplies. The company provides power supplies that have greater energy efficiency than required by the above measurement standards, thereby achieving both energy savings and carbon reduction.  In 2013, we chose HTC One as its representative product. In a concerted effort with suppliers, HTC One was able to pass third party product verification, and became the first Smartphone to meet comprehensive international standards for carbon footprint and life cycle assessment, including ISO/TS 14067:2013, PAS 2050:2011, ISO 14040:2006, and ISO 14044:2006.  In addition, the inks used to print HTC packaging are of low volatility or use soy ink that complies with the standards set by the American Soybean Association. HTC aims to minimize the impact of its packaging materials on the environment.	None
(2) Whether the company establishes of environmental management systems appropriate to the nature of its industry?	v		HTC has passed ISO14001:2004 certification to set criteria for environmental management systems and ISO14064:2006 certification to report greenhouse gas emissions and removal. In addition, HTC received ISO 50001 certification in 2011, using its energy management system and energy saving measures to increase energy efficiency and reduce greenhouse gas emissions.	None
(3) Whether the company pays attention to the effects of climate change on its operations, investigation of greenhouse gas affairs and its establishment of a company strategy for energy conservation and carbon and greenhouse gas reduction?	v		Beginning in 2008, HTC has publically reported and verified its Greenhouse Gas Emissions (GHG) inventories and set GHG emissions reduction goals for all production facilities in Taiwan. In 2010, with the support of third-party agencies, HTC began publically reporting its GHG inventories for its Mainland China factories.  Through the implementation of ISO50001, energy management systems, and effective energy reduction measures, the company has been able to increase energy efficiency while reducing greenhouse gas emissions.	None
<b>3. Protecting the public interest</b>				
(1) Whether the company formulated its policies and procedures on management in accordance with relevant regulations and International Covenant on Civil and Political Rights?	V		HTC periodically holds labor coordination meetings, labor representatives selected by employees in attendance. These meetings focus on the discussion of labor rights.  HTC's employee code of conduct defines employees' legal rights, interests and establishes appropriate compliance measures.	None
(2) Whether the company has established an approach and channel for employee appealing and whether it is handled properly?	V		HTC operates an internal system to receive employee complaints. This system includes a hotline, mailbox, and e-mail address dedicated to receiving employee complaints and suggestions as well as a regularly convened joint labor-management committee. HTC regularly canvasses employee opinions. Results are made available to executives and managers and used to measure changes in employee satisfaction and commitment.	None
(3) Whether the company provides a safe and healthy work environment for its employees and its provision of health and safety education to its employees on a regular basis?	V		To ensure the health and safety of our employees, HTC annually commissions a qualified laboratory to conduct on-site environmental tests. The results of all tests surpass standards set by related regulations.  To strengthen safety and health awareness, HTC provides new employees with three hours of safety and health training. Employees with special work requirements, such as the handling of organic hazardous solvents, will receive further training pertinent to the nature of their job. For employees on-the-job, we institute training on safety and health, the use of hazardous and harmful materials as well as operation of hazardous machines and equipment.	None
(4) Whether the company has set up a system for the employees to communicate periodically and informed them through reasonable approaches about changes in operations that would cause a major impact?	V		A meeting for employee and employer is held every two months, and the meeting for the safety commission is held once every three months. All meeting minutes are posted on the company intranet (my HTC).	None

(Continued)

Item	Implementation Status		Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
	Yes	No		
<b>3. Protecting the public interest</b>				
(5) Whether the company has established an effective plan for the employees in training and career development?	v		HTC values the development and cultivation of our employees. In order to fulfill the commitment to grow with our employees, HTC constructs systematic learning development blueprint that provides a comprehensive curricula covering professional, managerial and personal development as well as language courses and training for new employees. These programs help staff acclimate quickly to HTC's corporate culture and acquire essential knowledge and skills. We've introduced e-Learning and Mobile Learning platforms to make learning more convenient and flexible.	None
(6) In regards to R&D, purchases, production, operation, and procedures of service, has the company formulated polices that would protect consumers' rights, as well as procedures for appealing?	v		HTC safeguards consumer rights and interests with various services and information. It provides channels of communication that allow consumers to contact HTC, including: · the limited warranty sheet included in the HTC phone package · Customer service contact numbers in all countries · Customer service center contact info card in Taiwan · Include the telephone numbers and methods of connecting to its dedicated customer service lines on its official Website · Live customer chat service · Customer service e-mail · Home pickup and delivery service · Customer service center address	None
(7) Whether the company complied with regulations and international norms on marketing and marking for its products and services?	v		HTC follows all related international norms and regulations on marketing and labeling for its products and services, in ways that also meet expectation of its customers.	None
(8) Before interacting with its suppliers, has the company reviewed and assessed records of these suppliers in regards to whether they had negatively impacted the environment and society in the past?	v		In December 2010, HTC joined the Electronic Industry Citizenship Coalition (EICC). Based on the EICC Electronic Industry Code of Conduct, HTC defined its own version called the "HTC Supplier Code of Conduct". Based on HTC Supplier Code of Conduct and the governing laws applicable to the Supplier's manufacturing plant, the company is able to conduct supplier audits within the scope of corporate social responsibility, including working conditions, environment, safety & health, integrity & ethics and related management systems  In 2012, we included the issue of conflict minerals into the audit scope of supplier social responsibility. HTC does not support the purchase of conflict materials. To ensure that Gold (Au), Titanium (Ta), Tin (Sn), Tungsten (W) and other metals do not come from the Democratic Republic of Congo and other neighboring countries in the conflict minerals zone, HTC and its suppliers make the utmost effort to avoid using conflict minerals in the hopes of improving the negative impact this issue has brought forth.  HTC supports the US Dodd-Frank Wall Street Reform and Consumer Protection Act H.R. 4173. HTC has also joined the EICC and Global e-Sustainability Initiative (GeSI)'s mining workgroup activities and aims to join the EICC-GeSI's mining source audit plan. We require that suppliers comply with HTC's conflict-free minerals procurement policy, which means that they must lower, reduce, and eliminate the use of conflict minerals. HTC requires suppliers to complete the "Metals Mining Source Survey" and sign a "Conflict-Free Minerals Warranty," which are both included in the Supplier Code of Conduct.  Based on the Friends of the Earth (FoE) investigative report, the mining of tin on Banka Island in Indonesia is violating human rights and damaging the environment with catastrophic effects. To support this global environmental protection effort, we have checked our first tier suppliers and currently there is no direct use of this tin ore, but there is a portion that has indirectly come from Banka Island.  We will be responsible for our supply chain management and ask that our suppliers to avoid using tin ore from this source. As Indonesia is still the main source for tin ore, it is currently not possible to completely avoid its use. In the meantime we have asked suppliers to sign a warranty declaration, which states that if they use tin from Banka Island it must not come as a result of labor rights violations, use of child labor and environmentally harmful activities. Suppliers must also take the responsibility to help alleviate the harmful effects that tin ore mining has had on the environment and people and to ensure the sustainable development of the environment.  HTC will continue to promote responsible mineral sourcing, while tracking and monitoring our suppliers so that they may communicate and implement our conflict minerals procurement policies to upstream suppliers.	None

(Continued)

Item	Implementation Status		Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
	Yes	No		
<b>3. Protecting the public interest</b>				
(9) Whether the contract between the company and its major suppliers included clauses of termination and removal of the contract should the suppliers be involved in violation of its CSR policies that cause a major impact to the environment and society?	V		In December 2010, HTC joined the Electronic Industry Citizenship Coalition (EICC). Based on the EICC's Electronic Industry Code of Conduct, HTC defined its own version called the "HTC Electronic Supplier Code of Conduct". Based on HTC's Supplier Code of Conduct and the governing laws applicable to the Supplier's manufacturing plant, the company is able to conduct supplier audits within the scope of corporate social responsibility, including working conditions, environment, safety & health, integrity & ethics and related management systems  The purchasing contract does not define that HTC will Terminate the business contract if suppliers violate their Corporate Social Responsibility Policy and have significant impacts on the environment and society.	The purchasing contract does not define that HTC will Terminate the business contract if suppliers violate their Corporate Social Responsibility Policy and have significant impacts on the environment and society.
4. Enhancing information disclosure Status of disclosure on the company's website and MOPS of relevant and reliable information regarding corporate social responsibility.	V		HTC's commitment to corporate social responsibility is available on our global website (www.csr.htc.com), and HTC's CSR report is disclosed on MOPS.	None
5. For companies who follow the Listed Company Corporate Social Responsibility Code of Conduct as a guideline to setting its own Corporate Social Responsibility Code of Conduct, please describe any differences between operations and guidelines: HTC has yet to define a corporate social responsibility code of conduct.				
6. Any other important information that helps to understand corporate social responsibility practices HTC drafted its CSR report in 2014 and received the Large Enterprises, Electronic Industry II Golden Award for manufacturers in Taiwan Corporate Sustainability Awards of 2014.  HTC invites the Hsinchu Blood Donation Center to organize four blood drives every year. The annual blood donation target is over 1000 bags.  The HTC Fund has established three Character and English Institutes in Hualian, Yunlin, and Chiayi. In 2013, HTC plans to add another school in Taitung. Additionally, in 2012 HTC extended outside of the education realm, using the influence of Character Education to move into other areas, which is evident from the development of Character Towns and Character Hospitals.				
7. If the company's products or corporate social responsibility reports have been confirmed by relevant institutions, please indicate: Report 1 GRI31 written guidelines have passed AA100 verification by an impartial third-party SGS and received the confirmation statement.  2017 CSR report will be prepared in accordance with the Global Reporting Initiative (GRI) Standard Core Option and AA1000 (2008) standards and plan to be confirmed by independent 3rd party to be in compliance with AA1000AS Type II top-level assurance and GRI G4 Core option.				

## (6) Status of HTC's Implementation of Ethical Corporate Management Best Practices and Adoption of Related Measures:

### Status of Implementation of Ethical Corporate Management Best Practices

Item	Implementation Status		Summary	Reason for Non-implementation
	Yes	No		
<b>1. Adoption of ethical corporate management policies and programs</b>				
(1) Whether HTC discloses clearly for adopting ethical corporate management policies and procedures in its rules and external documents, and of the board of directors and the management in undertaking to rigorously and thoroughly enforce such policies.	V		HTC Code of Conduct is a guideline to provide high ethical standards for all employees in conducting HTC business activities. This Code includes three major sections: the General Moral Imperative, Vendors/ Suppliers and Customers Relationship, and Conflict of Interests which covers HTC's ethical management policy. This Code is disclosed in the Annual report and on the investor website.  The Board of Directors and the management all place the greatest importance on adopting the highest standards of integrity and ethics in corporate management and employee work conduct. Bribery, corruption, deception, and all other forms of improper conduct are prohibited.	HTC does not produce a Ethical Corporate Management Best Practice Principles per the Ethical Corporate Management Best Practice Principles for TWSE/ GTSM- Listed Companies. HTC adopted Code of Conduct for follow up.
(2) Whether the company adopts a program to prevent unethical conduct, including its operational procedures, guidelines for ethical conduct, punishment of violance and complaint system.	V		The Code of Conduct describes Corporate Confidentiality, Protection of Property, HTC's Assets, and Personal Information, standards for entertainment and Business Courtesies among All employees or their immediately family members, customers and suppliers/Vendors, Travel, Conflict of interest, Outside Employment and Inside Trading to prevent unethical conduct. HTC also provides dedicated e-mail for employee to complaint. The Code of Conduct is one of the courses in the new employee orientation and is declared in the e-learning courses. Further, in order to prevent insider trading, HTC invites legal professionals to provide trainings to managers. HTC also adopted the Corporation Rules for Donations Out of Income as the principle to approve and process Company's donation.	None
(3) Whether the company asserts, when establishing the program to prevent unethical conduct according to the article 7 of the Corporate Governance Best-Practice Principles for TSEC/ GTSM Listed Companies, to address which business activities within its business scope pose higher risk of unethical conduct, and to adopt preventive measures against it.	V		Per the Code of Conduct, HTC will hold new employee orientation and ask employees to review the code periodically to prevent unethical conduct.	None
<b>2. Enforcement of ethical corporate management</b>				
(1) Whether the company exerts in its business activities to evaluate the counterparty the record of unethical conduct, and to include ethical conduct clauses in its business contracts.	V		When signing purchasing or engineering contracts with suppliers, HTC consistently requires the suppliers to cooperate by signing an Integrity Policy Statement or Supplier Integrity Commitment Letter, to expressly provide that its business partners will uniformly comply with national laws and refrain from using unethical conduct to gain advantages in business or work (for example by offering kickbacks, entertainment, or other improper benefits). The signed terms and conditions expressly stipulate that HTC will voluntarily terminate its dealings with any cooperating firm that violates the Integrity Policy. HTC will seek compensation for damages if any breach of commitment happens due to the violation of the policy in order to consistently maintain a relationship of integrity between HTC and its business counterpart.	None
(2) Whether HTC establishes and operates a dedicated (or part-time) unit with responsibility for the enforcement of ethical corporate management under the Board of Directors, and periodically report to the Board of Directors.	V		HTC has not established a dedicated (or part-time) unit with responsibility for the enforcement of ethical corporate management. Currently, HTC has adopted an employee code of conduct that sets rules for compliance by all division supervisors and employees in their execution of company operations, to prevent violations of ethical corporate management principles by HTC. We have a dedicated email: anti-corruption@htc.com to report any violations. When violations of the employee code of conduct occur or are suspected, the human resources and legal divisions will cooperate to investigate and then report to management so that necessary disciplinary measures can be taken.	HTC has not established a dedicated (or part-time) unit with responsibility for the enforcement of ethical corporate management.

(Continued)

Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary	
<b>2. Enforcement of ethical corporate management</b>				
(3) Whether the company has adopted the policies for preventing conflicts of interest and offering appropriate channels for stating opinions, and the operation thereof?	V		<p>HTC has set out high ethical standards in its employee code of conduct. Additionally, in its employment agreements and employee handbook, it expressly stipulates non-competition provisions for the period of employment, to prevent conflicts of interest. Unit supervisors and internal auditors can investigate and audit any questionable conduct in line with these policies.</p> <p>Also, in its Rules of Procedure for Board of Directors Meetings, it has duly set out a system for recusal and avoidance of conflicts of interest by directors, for compliance in the operations of the board of directors.</p> <p>HTC also has established channels for statements of opinions and reports of violations, by which employees may report any questionable conduct discovered.</p>	None
(4) Whether the company establishes and operates the effective accounting systems and internal control systems for the enforcement of ethical corporate management, and of audits periodically by internal auditors or accounting firms?	V		<p>HTC has established an accounting system that takes into account the characteristics of its industry and is based on applicable laws and regulations and generally accepted accounting principles. The system provides a basis for compliance in HTC's accounting affairs (including the types and formats of accounting evidence, account books, accounting classifications, and financial statements, and the rules and procedures for handling various kinds of accounting matters). The system enables the regular provision of reliable accounting information for reference by the management. The implementation of the operational procedures and rules of the accounting system ensures that HTC's business operations proceed according to rigorous procedural rules, with mutual checking and reconciliation between various operations, to prevent any occurrence of abuses, ensuring the security of HTC's assets.</p> <p>HTC has taken into account its overall operational activities in designing and faithfully implementing its internal control system. It regularly reviews the internal control system to ensure the continued effectiveness of its design and implementation in light of changes in HTC's internal and external environment. The internal auditors conduct scheduled or unscheduled site audits of audited units according to internal audit plans, and may require audited units to present documents, account books, and evidence to conduct document audits. When necessary, they also may conduct special audits of specific matters, and compile their work papers and related materials into reports and submit them to the board of directors.</p>	None
(5) Whether the company holds internal or external education and training operations periodically?	V		Per the Code of Conduct, HTC will hold new employee orientation and ask employees to review the code periodically to prevent unethical conduct.	None
<b>3. Status of reporting system for the company</b>				
(1) Whether the company has adopted a system for reporting and rewarding, established a channel convenient for reporting, and assigned appropriate staffs responsible for handling issues for the reported parties?	V		HTC employee handbook specifically provides that an employee who commits fraud, accepts bribes, misappropriate funds, or violates employment period non-competition clauses will be sanctioned by dismissal from employment. Complaints can be channeled through HTC's internal division supervisors, human resources division, and internal auditors. Disciplinary measures are administered by the human resources department. HTC also has established channels for statements of opinions and reports of violations, by which employees may report any questionable conduct discovered.	None
(2) Whether the company has adopted a standard operating procedure for investigation of the reported matters, as well as relevant rules regarding confidentiality?	V		The company has adopted operating procedures and rules regarding confidentiality for investigation of the reported matters. Upon acquisition of relevant evidences, HTC will set up an investigation team to carry out corresponding procedures with a responsibility for maintaining	None
(3) Whether the company has adopted measures for protecting reporting parties from inappropriate treatment because of their acts of reporting?	V		HTC has a dedicated email: anti-corruption@htc.com. Employees can use the email to report the case to the company with provision of relevant evidences. HTC will have its team carry out investigation with the reporting parties placed under protection.	None
<b>4. Strengthening information disclosure</b>				
(1) Whether the company builds the website and announces on MOPS for information disclosure related to ethical corporate management principles and effects?	V		HTC discloses its Code of Conduct on its investor's website both in Chinese and English, the Corporate Responsibility webpage also discloses Supplier Code of Conduct. Supplier's business shall be ethical.	None

(Continued)

Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary	
5. HTC does not produce a Ethical Corporate Management Best Practice Principles per the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies. HTC adopted Code of Conduct to provide high ethical standards for all employees in conducting HTC business activities. All employees of HTC Corp., including branches and subsidiary companies, must follow these ethical standards regardless of the employees' position, grade level, and location. This Code includes three major sections: the General Moral Imperative, Vendors/Suppliers and Customers Relationship, and Conflict of Interests.				
6. Other important information helpful to understanding HTC's exercise of good faith in management:			HTC has always upheld the five major ideals of honesty, humble, simplicity, energy, and innovation as its highest criteria for operations. Everyone within the company, from the highest levels to the lowest, is asked to strictly uphold the spirit of these five ideals, as well as abiding by all laws, regulations, and rules. HTC has also formulated internal rules to ensure the exercise of good faith in management and the observance of laws and regulations.	

(7) For information on HTC's Guidelines for Corporate Governance and other codes of practice, please refer to the HTC website at [www.htc.com](http://www.htc.com).

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

HTC has continued to examine and revise or adopt new rules and procedures which will enhance the efficiency of its operations and strengthen risk management and corporate governance. Over the recent years, in line with the formulation or amendment of relevant securities laws and regulations, and in consideration of operational needs, HTC has adopted or revised its "Procedures for Board of Directors Meetings", "Procedures for the Acquisition or Disposal of Assets", "Procedures for the Handling of Derivatives Trading", "Corporate Governance Principles", "Procedures for Shareholders' Meetings", "Bylaws for the Election of Directors and Supervisors", and "Compensation Committee Charter". In addition, it has also adopted the "Detailed Guidelines for the Handling of Derivatives Transactions", "Credit Policy and Operation Procedures", and "Rules for Assignment of Directors and Supervisors at Investee Companies", and revise implementation rules that guide its internal operations, such as the "Specific Companies, Enterprise Groups and Related Parties", "Budget Management Procedures", "Corporate Bylaws for Subsidiaries" and "Operational Procedures for Handling Material Inside Information, and Prevention of Insider Trading".

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

### 1. Statement on Internal Control

HTC Corporation

### Internal Control System Statement

Date: 03/25/2018

The Company states the following with regard to its internal control system for 2017, based on the findings of a self-assessment:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguarding of asset security), reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations and bylaws.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" promulgated by the Financial Supervisory Commission (hereafter, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring activities. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has assessed the design and operating effectiveness of its internal control system according to the forementioned criteria.
5. Based on the findings of the assessment mentioned as of 12/31/2017, the Company believes that during the stated time period its internal control system (including its supervision and management of subsidiaries), encompassing internal controls for understanding of the degree of achievement of operational effectiveness and efficiency objectives, reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations and bylaws, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This statement has been passed by the Board of Directors Meeting of the Company held on 03/25/2018, in which all of the 6 attending directors affirmed the content of this Statement.

HTC Corporation



Chairman:



President:



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

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

**(11) Material Resolutions of the 2017 Shareholders Meeting and Board of Directors Meetings during the most recent fiscal year and the current fiscal year up to the date of printing of this annual report.**

### 1. Material Resolutions of the Shareholders Meeting

Date	Material resolutions	Implementation Status:
2017.06.15	1. Adoption of the Fiscal 2016 Business Report and Financial Statements.	The Fiscal 2016 Business Report and Financial Statements are submitted to the competent authority for reference and announcement in accordance with relevant regulations.
	2. Adoption of the Fiscal 2016 Deficit Compensation Proposal.	Adopted according to the resolution, no dividends were distributed.
	3. Discussion on the proposal to partially amend the Company's Procedures for the Acquisition or Disposal of Assets is submitted for discussion.	It was announced on the website of the company on July 4, 2017 and processed according to the revised procedure.

### 2. Material Resolutions of the Board of Directors Meetings

Date	Material resolution
2017.03.06	1. Proposal for the Fiscal 2016 Deficit Compensation. 2. Proposal to set the subjects, date, time and venue for the 2017 Annual General Shareholders Meeting, as well as the time period and location for submission of shareholders' proposals and shareholders' nominations. 3. Proposal for registering a change of share status to write-off 104,500 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.
2017.03.15	1. Proposal for sale of land and plant of Kang Qiao Plant in Shanghai, HTC Electronic (Shanghai) Co., Ltd.
2017.05.05	1. Proposal for registering a change of share status to write-off 109,000 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.
2017.06.16	1. Proposal for the capital injection of US\$13 million from Company's subsidiary HTC EUROPE CO., LTD. to its subsidiary HTC America Content Services, Inc. through the current investment framework, to fulfill the latter subsidiary's operational and working capital requirements.
2017.07.28	1. Proposal for registering a change of share status to write-off 267,550 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.
2017.09.21	1. Proposal to execute a Business Cooperation Agreement with Google. 2. Proposal for the 100% share sale of Communications Global Certification Inc. (CGC) to Google.
2017.10.30	1. Proposal for registering a change of share status to write-off 711,550 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.
2018.03.25	1. Proposal for the Fiscal 2017 Deficit Compensation ° 2. Proposal to set the subjects, date, time and venue for the 2018 Annual General Shareholders Meeting, as well as the time period and location for submission of shareholders' proposals ° 3. Proposal for registering a change of share status to write-off 16,200 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital. 4. Proposal on the appointment of the Company's internal audit officer 5. Proposal for the capital injection in High Tech Computer Asia Pacific Pte. Ltd. for conducting the capital injection of US\$ 20 million into HTC America Content Services, Inc., through the current investment framework °

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

**(13) A summary of resignations and dismissals, during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report, of the company's chairman, general manager, principal accounting officer, principal financial officer, chief internal auditor, and principal research and development officer**

Title	Name	Appointment Date	Effective Date	Type of the Change
Internal audit officer	Ken Wang	2011.12.01	2017.07.21	resignation
Chief Operating Officer	David Chen	2007.05.08	2018.01.30	resignation
President of Smartphone and Connected Devices Business	Chialin Chang	2012.04.16	2018.02.14	resignation

## 3. Information on CPA Professional Fees:

### (1) Scale of information on CPA professional fees

Accounting Firm	Name of CPA	Audit Period	Note
Deloitte & Touche	Wen-Yea Shyu Kwan-Chung Lai	Years Ended December 31, 2017	

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

**(2) Information on CPA professional fees****1. The amounts of both audit and non-audit fees as well as details of non-audit services are disclosed as follows:**

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					CPA's Audit Period	Note
			System Design	Company Registration	Human Resource	Others (Note)	Subtotal		
Deloitte & Touche	Wen-Yea Shyu Kwan-Chung Lai	8,000		474		850	1,324	Years Ended December 31, 2017	Transfer pricing report and international tax consultation

**2. The company does not change its accounting firm.****3. Audit fees paid for the current year are lower than those for the previous fiscal year by 15 percent or more.**

The related costs and expenses reduced was in response to the operating scale.

**4. The Company Does Not Replace Its Certified Public Accountant Within the Last Two Fiscal Years or Any Subsequent Interim Period.****5. The Company's Chairperson, General Manager, or Any Managerial Officer in Charge of Finance or Accounting Matters Has Not in the Most Recent Year Held a Position at the Accounting Firm of Its Certified Public Accountant or at an Affiliated Enterprise of Such Accounting Firm.****6. Transfer of Equity Interests and/or Pledge of or Change in Equity Interests by a Director, Supervisor, Managerial Officer, or Shareholder with a Stake of More than 10 Percent During the Most Recent Fiscal Year and the Current Fiscal Year up to the Date of Printing of This Annual Report.****(1) Changes in shareholdings of Directors, Supervisors, Managers, and Major Shareholders**

Unit: Shares

Title	Name	2017		2018.01.01 - 2018.04.28	
		Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Chairwoman & CEO	Cher Wang	0	0	0	0
Director	HT Cho	0	0	0	0
Director	Wen-Chi Chen	0	0	0	0
Director	David Bruce Yoffie	0	0	0	0
Independent Director	Chen-Kuo Lin	0	0	0	0
Independent Director	Josef Felder	40,000	0	0	0
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	0	0	0	0
Supervisor	Huang-Chieh Chu	0	0	0	0
Chief Technology Officer	WH Liu	24,000	0	0	0
General Counsel	Marcus Woo	0	0	0	0
Vice President	Hsiu Lai	7,100	0	0	0
Chief Finance Officer (Notel)	Peter Shen	0	0	0	0
Former President of Smartphone and Connected Devices Business	Chialin Chang (released as insider manager on February 14, 2018)	0	0	0	0
Former Chief Operation Officer	David Chen (released as insider manager on January 30, 2018)	80,000	0	0	0
Vice President	Crystal Liu (released as insider manager on May 31, 2018)	0	0	0	0
Former President of North Asia	Jack Tong (released as insider manager on April 24, 2017)	( 9,000)	0	( 9,000)	0
Former Vice President	Jason Mackenzie (released as insider manager on February 2, 2017)	( 3,974)	0	( 3,974)	0

**(2) Stock transfer with related party:**

None

**(3) Stock Pledged with related party:**

None

**7. Related Party Relationship Among the Company's 10 Largest Shareholders.**

2018.04.28

Name (Note 1)	Shareholding		Shareholding under spouse and children of minor age		Shareholding under the title of third party		Top 10 shareholders who are related parties to each other. (Note 2)		
	Shares	%	Shares	%	Shares	%	Name	Relationship	Note
Way-Chih Investment Co., LTD. (Representative: Su-Lan Chiang)	43,819,290	5.34%	0	0.00%	0	0.00%	Way-Lien Technology Inc. Hon-Mou Investment Co., Ltd.	Same chairwoman Same chairwoman	
Way-Lien Technology Inc. (Representative: Su-Lan Chiang)	37,288,231	4.54%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Hon-Mou Investment Co., Ltd.	Same chairwoman Same chairwoman	
Cher Wang	32,272,427	3.93%	22,391,389	2.73%	0	0.00%	Wen-Chi Chen	Spouse	
Hon-Mou Investment Co., Ltd.	23,197,081	2.83%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Way-Lien Technology Inc.	Same chairwoman Same chairwoman	
Wen-Chi Chen	22,391,389	2.73%	32,272,427	3.93%	0	0.00%	Cher Wang	Spouse	
HTC Corporation-GDR	12,653,645	1.54%	0	0.00%	0	0.00%	None	None	
The Master Trust Bank of Japan, Ltd. as trustee for Government Pension Investment Fund - internal - MTBJ400045833	12,131,000	1.48%	0	0.00%	0	0.00%	None	None	
Standard Chartered Bank in custody for VANGUARD EMERGING MARKETS STOCK INDEX FUND	11,836,221	1.44%	0	0.00%	0	0.00%	None	None	
ABP Pension Investment Fund under the custody of JPMorgan Chase Bank	10,222,850	1.25%	0	0.00%	0	0.00%	None	None	
Vanguard Total International Stock Index Fund a series of Vanguard Star Funds	9,838,792	1.20%	0	0.00%	0	0.00%	None	None	

Note 1: The top 10 shareholders shall all be listed; for institutional shareholders, the name of the entity and the name of its representative shall be listed separately.

Note 2: Mutual relationships of shareholders, including judicial and natural persons, shall be disclosed.

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

2018.03.31 Unit: thousands Shares; NTD thousands; %

Long-term investments (Note)	Investments by HTC Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
H.T.C. (B.V.I.) Corp.	1,276,202 thousands Shares	100%	0	0%	1,276,202 thousands Shares	100%
High Tech Computer Asia Pacific Pte. Ltd.	537,534 thousands Shares	100%	0	0%	537,534 thousands Shares	100%
HTC Investment Corporation	30,000 thousands Shares	100%	0	0%	30,000 thousands Shares	100%
PT. High Tech Computer Indonesia	2 thousands Shares	1%	186 thousands Shares	99%	188 thousands Shares	100%
HTC I Investment Corporation	29,500 thousands Shares	100%	0	0%	29,500 thousands Shares	100%
HTC Holding Cooperatief U.A.	NTD13 thousands	0.01%	NTD5,652,318 thousands	99.99%	NTD5,652,331 thousands	100%
HTC Investment One (BVI) Corporation	333,733 thousands Shares	100%	0	0%	333,733 thousands Shares	100%
HTC Investment (BVI) Corp.	18,000 thousands Shares	100%	0	0%	18,000 thousands Shares	100%
HTC VIVE Holding (BVI) Corp.	7,000 thousands Shares	100%	0	0%	7,000 thousands Shares	100%
HTC VIVE Investment (BVI) Corp.	5,000 thousands Shares	100%	0	0%	5,000 thousands Shares	100%
DeepQ Holding (BVI) Corp.	4,000 thousands Shares	100%	0	0%	4,000 thousands Shares	100%
HTC Smartphone (BVI) Corp.	33 thousands Shares	100%	0	0%	33 thousands Shares	100%
HTC VR Content (BVI) Corp.	350 thousands Shares	100%	0	0%	350 thousands Shares	100%
HTC (Australia and New Zealand) Pty. Ltd.	0	0%	400 thousands Shares	100%	400 thousands Shares	100%
HTC Philippines Corporation	0	0%	859 thousands Shares	100%	859 thousands Shares	100%
HTC (Thailand) Limited	0	0%	10,000 thousands Shares	100%	10,000 thousands Shares	100%
HTC India Private Limited	0	0%	500 thousands Shares	100%	500 thousands Shares	100%
HTC Malaysia Sdn. Bhd.	0	0%	25 thousands Shares	100%	25 thousands Shares	100%
HTC HK, Limited	0	0%	1,044,376 thousands Shares	100%	1,044,376 thousands Shares	100%
Yoda Limited	0	0%	NTD20,000 thousands	100%	NTD20,000 thousands	100%
S3 Graphics Co., Ltd.	0	0%	386,339 thousands Shares	100%	386,339 thousands Shares	100%
HTC Netherlands B.V.	0	0%	143,882 thousands Shares	100%	143,882 thousands Shares	100%
HTC South Eastern Europe LLC.	0	0%	0.15 thousands Shares	100%	0.15 thousands Shares	100%
HTC EUROPE CO., LTD.	0	0%	69,270 thousands Shares	100%	69,270 thousands Shares	100%
HTC Brasil	0	0%	1,987 thousands Shares	100%	1,987 thousands Shares	100%
HTC Belgium BVBA/SPRL	0	0%	18.55 thousands Shares	100%	18.55 thousands Shares	100%
HTC NIPPON Corporation	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
HTC France Corporation	0	0%	11,000 thousands Shares	100%	11,000 thousands Shares	100%
HTC Nordic ApS	0	0%	80 thousands Shares	100%	80 thousands Shares	100%
HTC Italia SRL	0	0%	NTD51,056 thousands	100%	NTD51,056 thousands	100%
HTC Germany GmbH	0	0%	25 thousands Shares	100%	25 thousands Shares	100%
HTC Iberia, S.L.U.	0	0%	3 thousands Shares	100%	3 thousands Shares	100%

(Continued)

2018.03.31 Unit: thousands Shares; NTD thousands; %

Long-term investments (Note)	Investments by HTC Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
HTC Poland sp. z o.o.	0	0%	4.7 thousands Shares	100%	4.7 thousands Shares	100%
HTC Communication Canada, Ltd.	0	0%	1,500 thousands Shares	100%	1,500 thousands Shares	100%
HTC Communication Sweden AB	0	0%	1,000 thousands Shares	100%	1,000 thousands Shares	100%
HTC Luxembourg S a r. l.	0	0%	12.5 thousands Shares	100%	12.5 thousands Shares	100%
HTC Middle East FZ-LLC	0	0%	3.5 thousands Shares	100%	3.5 thousands Shares	100%
HTC America Holding, Inc.	0	0%	371,617 thousands Shares	100%	371,617 thousands Shares	100%
HTC America, Inc.	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
One & Company Design, Inc.	0	0%	60 thousands Shares	100%	60 thousands Shares	100%
HTC America Innovation, Inc.	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
HTC America Content Services, Inc.	0	0%	31 thousands Shares	100%	31 thousands Shares	100%
Dashwire, Inc.	0	0%	0.1 thousands Shares	100%	0.1 thousands Shares	100%
Inquisitive Minds, Inc.	0	0%	0.1 thousands Shares	100%	0.1 thousands Shares	100%
HTC VIVE TECH (BVI) Corp.	0	0%	70,000 thousands Shares	100%	70,000 thousands Shares	100%
HTC VIVE TECH Corp.	0	0%	100 thousands Shares	100%	100 thousands Shares	100%
HTC VIVE TECH (HK) Limited	0	0%	6,800 thousands Shares	100%	6,800 thousands Shares	100%
HTC VIVE TECH (UK) Limited	0	0%	6,000 thousands Shares	100%	6,000 thousands Shares	100%
DeepQ (BVI) Corp	0	0%	39,700 thousands Shares	100%	39,700 thousands Shares	100%
DeepQ Technology Corp.	0	0%	11,500 thousands Shares	100%	11,500 thousands Shares	100%
Uomo Vitruviano Corp.	0	0%	1,000 thousands Shares	100%	1,000 thousands Shares	100%
VRChat. Ca. Development Inc.	0	0%	0.1 thousands Shares	100%	0.1 thousands Shares	100%
High Tech Computer (SuZhou) Co., Ltd.	0	0%	USD100 thousands	100%	USD100 thousands	100%
HTC Corporation (Shanghai WGQ)	0	0%	USD1,500 thousands	100%	USD1,500 thousands	100%
HTC Electronics (Shanghai) Co., Ltd.	0	0%	USD132,909 thousands	100%	USD132,909 thousands	100%
HTC Communication Co., Ltd.	0	0%	USD127,500 thousands	100%	USD127,500 thousands	100%
HTC Communication Technologies (SH)	0	0%	USD4,000 thousands	100%	USD4,000 thousands	100%
HTC Communication (BJ) Tech Co.	0	0%	RMB10,500 thousands	100%	RMB10,500 thousands	100%
HTC VIVE TECH (Beijing) Limited	0	0%	USD800 thousands	100%	USD800 thousands	100%
VRChat. Inc.	0	0%	49,958 thousands Shares	53.16%	49,958 thousands Shares	53.16%
HTC Vietnam Services One Member Limited Liability Company	0	0%	USD 200 thousands	100%	USD 200 thousands	100%
HTC Communication Solutions Mexico, S.A DE CV.	0	0%	50 thousands Shares	100%	50 thousands Shares	100%
HTC Servicios DE Operacion Mexico, S.A DE CV.	0	0%	50 thousands Shares	100%	50 thousands Shares	100%
HTC Czech RC s.r.o.	0	0%	NTD32,203 thousands	100%	NTD32,203 thousands	100%

Note: Investments accounted for using the equity method.

## 9. Corporate Social Responsibility

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

### (1) Employee health and care

Employees are HTC's most cherished assets. We are devoted to creating a safe and comfortable workplace that stimulates creativity of our employees, trying our best to satisfy and take all of our employees' needs into consideration regarding work. HTC is aware that letting employees remain professional and passionate about their participation in the company's development is vital for the company to move toward success and sustainable development. Thus, balancing life and work as a way of maintaining employees' physical and mental health has always been a goal that HTC pursues.

We regard employees' health as the key to showing care to our employees. We work our best in providing a healthy and cozy workplace for all our employees and have been specifically working on major tasks such as "health management", "health promotion", "occupational health care", and "employee assistive programs (EAP)". We have planned out related response procedures for major infectious diseases that are prone to spread, ensuring that related resources and supports are in place for effective actions while taking solid measures to safeguard the health of every employee.

Noting that stress from work can easily make employees neglect the harm it has on health, the company set up the HTC affiliated medical room (employee clinic in short) in addition to its original health center. The clinic offers services for employees such as doctors' visits, prescription, health consultation, physical therapy, health check, examination, and x-ray check. With national insurance card and employee IDs, employees are entitled to benefits such as free registration and waiver from basic deductibles. This health service was also made available to employees' family, visitors, and partner companies, as a way of making health care accessible to those in need. For employees with mid-to-high level risk of health problems according to their health check results, the clinic will arrange doctors and nurses to assist with diagnosis and tracking, and will provide assistance through related necessary health courses, information for proper health management, and forming of normal personal living style for employees, as a way of building up employees' ability to self-manage their health and implementing a complete health care system. In 2017, the total number of employees using all services reached 16,418, with those for the clinic having reached 7,588, health center 6,844, and participation in health promotion courses 1,986.

HTC has set a professional training room featuring a personal space with walled windows for employees to have a nice view of outdoor scenery while exercising. Professional trainers are regularly assigned as scheduled to provide guidance and consultation according to employees' needs. Workout courses include static yoga, Pilates, kinetic trendy dances, spinning, core muscle TRX, and boxing aerobic, etc. Employees can pick their courses based on their interest. Also, a thoughtful employee service app system was developed to allow them to register via their cellphones and save their time from waiting in lines for onsite registration. In 2017, there were in total 52,543 & 8,562 counts of employees taking part in Taipei office workout courses and aerobic courses respectively, and 37,297 & 2,588 counts of employees taking part in Taoyuan office workout courses and aerobic courses respectively.

To offer our employees more excellent service and environment for workout consultation, HTC has partnered with professional workout management consultant companies and invited professional providers for onsite management, through which they will provide onsite guidance to workout, curriculum planning, and protection of sports injury to help employees build up knowledge for proper sports safety and physical health. A full range of courses are planned for employees to participate based on their interest.

Also, in addition to the outdoor basketball courts and multi-function fields, the 17-th floor in Taipei office with a height of 10 meters for sport purposes can also be used as a basketball court, tennis, or badminton courts.

In addition to physical health, HTC also cares about employee's mental health and has partnered with Employee Assistance Center from Hsinchu City Life Line. Since start of partnership in February 2009, it offers every employee free mental health consultation for six times and phone consultation for unlimited times, all paid by the company. In 2017, it has served employees for 130 times in total, helping them solve issues with career, family, inter-personal relations, relationship, mental conditions, and stress.

We offer employees diverse interface, provide them subsidies and incentives to participate in group activities, and encourage them to develop interest in sports and recreation during their leisure time to enhance their experience with living. We hold various events, family days, sports competitions, and art shows. Through recreation and social gatherings, employees could get in sync and understand each other better. By inviting local artists and HTC employees to host art shows in the lobby of Taipei headquarter building, employees could enjoy a better resting when they walk around the building and enhance their creativity at work through the colors and lights from these art pieces.

To let employees "eat healthily with satisfaction", we have partnered with experienced professional culinary teams from well-known hotels. Under the thoughtful planning, our nutritionists take into consideration nutrients, calories, and the proportions of these elements to design meals that are truly nutritious, healthy, and delicious so that HTC employees could enjoy the high quality and healthiness of our meal services. Meals such as authentic Taiwanese cuisine, light dishes, home-made cooking, creative dishes, and seasonally-available warm soups with tonic ingredients are available for our employees to enjoy.

For purchase of food stock, we strictly boycott fake and tainted products by insisting on purchase of food with certifications such as CAS, TQF, ISO, and HACCP, as well as taking priority in brand-name food products. So that HTC employees could enjoy the high quality and healthiness of our meal services.

To foster a workplace friendly to breast-feeding, it encourages working women to continue breast-feeding, with a total of 17 breast-feeding rooms set up to offer a warm and comfortable feeding environment, ultra-violet bottle disinfection closet, micro-computer hot water kettle, comfy sofa-chair, refrigerator for storing breast-feeding milk, and posters about breast-feeding babies, creating a comfy feeding environment that has a cumulative usage count reaching 60,738 times as of 2017. For women and pregnant employees, health seminars such as "Parent-child self-guided tour" and "Brest milk protect with Love" were also held that employees can feel about the company's touching care.

With the policy of dedication to sustainable environments, HTC is committed to deliver landscaped green spaces in both our Taipei Headquarter and Taoyuan office buildings, comprising 30,700 square meters of

outdoor space, on which up to 500 Taiwan primitive trees are planted, such as Camphor Trees, Cypresses, Koelreuteria and Elegans. In addition, ecological ponds are constructed to improve and aid the complex optimization of environmental diversity. In order to improve the quality of working environments for employees, in relation to green ecology, plants, such as Pachira Aquatica and Epipremnum Aureum have been specifically chosen to purify indoor air, and facilitate the reduction of carbon dioxide. Within working spaces, plants are arranged at an interval between 20 and 50 meters and are replaced regularly to provide a fresh, clean working environments for employees. In 2017, we injected TWD 1.46 million and TWD 1.15 million respectively in Taoyuan office building and Taipei headquarter building for the plant maintenance.

Taking into consideration the need of dorm-staying employees for space and comfort, available in the company are exercise facilities, library, and social lounge. In addition, HTC has taken active gesture in responding to the government's policy for a smoke-free workplace by adopting measures for control of smoke and implement prohibition of smoking in indoor areas of the company buildings. For employees with the habit of smoking, the employees' clinic started offering out-patient service for smoke quitting since May of 2016, through which doctors, pharmacists, and health educators would offer treatments to help participating employees quit smoking. In 2017, the number of participating employees has reached 11.

## (2) Safety and health

To fulfill our commitment to safeguarding employees' safety and health, we have set up departments responsible for environmental protection and occupational safety and health according to the law. They will be responsible for carrying out tasks related to environmental protection, occupational safety and health, and energy-efficiency. They will also be assisting every plant with continued implementation of ISO14001, management system, OHSAS18001 occupational safety and health, and ISO50001 energy management system, as a way to fully implement tasks such as environmental protection, management of safety and health, and control on energy use.

### Environment Protection and Occupational Safety and Health Policy

HTC strives to provide a safe and healthy working atmosphere for all of our employees while adhering to sustainability best practices which protect our environment. HTC follows the guidelines below to achieve sustainable development and to ensure a better quality working environment for our employees, customers, suppliers and contractors.

- (1) We regard environment, safety, health, productivity, quality and effective energy management with equal importance.
- (2) We regard the safety and health of employees, customers, suppliers and contractors with equal importance.
- (3) We require our employees to observe all guidelines regarding safety, operating procedures, environmental protection, hygiene, health and energy management.
- (4) We are committed to preventing foreseeable dangers and loss control.
- (5) We follow required laws and regulations.
- (6) We will continue to practice and improve on our environment, safety, health and energy management systems.

HTC has introduced its management system for occupational safety and health to realize its commitment for continuous improvement through putting operation of the management system in full practice. We placed our focus on “management on safety and health”, “education and training for safety and health”, “SOP and work safety analysis”, “work safety check”, “emergency response”, “management and promotion for health”, and “activities for safety and health” to fully prevent occupational hazards from taking place.

To ensure a safe and healthy workplace, we invite inspection agencies recognized by Ministry of Labor to conduct inspections on operating environment every half a year and post the results at easily accessible areas for employees to know about. Since start of the inspection, all results for HTC have been better than the standards from those related regulations.

Quality of the drinking water directly affects employee’s health and management of the drinking water are closely related to the quality of the water. It is part of the daily life not to be missed. To implement standard and norms for the drinking water, HTC has adopted a complete plan for inspecting the drinking fountains, through which periodic maintenance, inspection on water quality, and disclosure of the records are to be carried out thoroughly according to the Drinking Water Management Act. The drinking fountains are to be maintained by EPA (Environmental Protection Administration)-approved professional agencies who will collect samples and check quality of the water every three months. They will inform in detail about the records maintained and the outcome of water inspection. This information will be posed in areas near the drinking fountains.

To strengthen our employees’ concepts about safety and health, we institute training on safety and health, the use of hazardous and harmful materials as well as operation of hazardous machines and equipment for employees upon their first day of reporting or during their job orientation and for employees on-the-job, related training will be provided according to regulations. Employees performing special operations will be given training on safety and health for those special operations. Firefighting drill held every half a year, and will be carried out in accordance with the emergency response procedure to reinforce their ability in responding to emergencies.

HTC is focused on techniques from the core business and hopes to foster development of industries through cooperation with vendors of various professions. For the long stayed vendors, we also care about the safety of work for these vendors, in addition to mutual learning. We believe a win-win future which would be only built under protection measure on full consideration. Thus, HTC will annually incorporate the related measures into the company’s plan for managing occupational safety and health according to the outcome of its vendors’ management on safety and health, in its effort to fully prevent occupational hazards from taking place.

Key points of safety and health management for our vendors include observance of all regulations related to safety and health, identification of the hazards and assessment to reduce risks, specification of hazardous and harmful materials, education about safety and health, and vendors management, which reduced risks to safety and health through participation of all employees. Subcontractors of construction have been informed and educated about the hazards before entering the plant for work so that they can learn about the working environment and process safety rules and getting familiar with use of the fire equipment.

An environment management system is also introduced and has passed certification by a third party outside.

The Taoyuan plant is responsible for setting the environment-related policy to be implemented and educated within the plant. It requires that the policy would be the basis for setting corresponding goals, systematically carrying out tasks related to environment control, and then putting them into daily management practice.

### (3) Supply chain partners

Suppliers are vital to the continued success of HTC and are also important partners in supporting our sustainable development. HTC is committed to fairness and legal compliance in all its conduct towards both consumers and suppliers and has invested consistently in building a win-win partnership with suppliers through mutual sharing, learning, and growth.

HTC was founded in Taiwan and is a Taiwanese company whose operations and procurement drives developments of related sectors. Except for certain key parts and components, HTC’s general procurement policy is to use raw materials and equipment originating in Taiwan to the greatest extent possible. We not only require our suppliers to provide quality services and products, but also measure our supply chain against stringent ethical and environmental standards.

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

HTC set up its own management platform for green supply chain in 2006, helping RD engineers to select green materials that comply to international regulations and customer requirements from the product database. With introduction of the green materials from the source of its designing, reliability of the green products and the related schedule of its verification would be greatly enhanced.

In the future, HTC will also have a plan to implement CSR training according to the status and level of its suppliers, helping them enhance their ability in implementing CSR. As of 2017, HTC has completed surveys of carbon footprint for 81 important components, with 43 suppliers having received training for surveys of footprints which helps ensure completeness and accuracy of the data we analyzed.

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

HTC supports the U.S. “Dodd-Frank Wall Street Reform and Consumer Protection Act” (H.R. 4173). We have also joined the joint mining task force setup by the EICC as well as the Global e-Sustainability Initiative (GeSI), and plan to participate in the EICC/GeSI conflict-free smelter program. At HTC, we require suppliers

to conform with our conflict mineral purchasing policy to reduce the use of conflict minerals. HTC requires suppliers to sign a “Conflict Minerals Survey Form” and a “Conflict-Free Material Assurance Letter” as part of our supplier CSR management process.

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

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

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

## (4) Environmental protection

### 4.1 Green products

We go far beyond applicable laws and regulations in the design and development of our sustainable products. Every stage of the process is given full Life Cycle Assessment (LCA) evaluation, and we break down the process into very detailed parts, to give our R&D team a complete picture of the complicated environmental considerations. We endeavor to minimize harm to the environment while making devices that will satisfy our consumers’ needs. To achieve this, we strive, from the earliest design and development stages, to select materials for production with low environmental risk and to exclude all internationally restricted substances. We work diligently to reduce the use of environmentally harmful substances, to increase recyclability, improve the reuse of resources, and reduce the adverse effects our products have on the environment.

#### 4.1.1 Sustainable design

HTC’s sustainable design concept for products mainly emphasize three areas: (1) Enhancement of energy efficiency, (2) Recyclability, and (3) Reduction of hazardous substances with the serious intention to make our products truly ‘green’ and competitive.

##### a) Enhancement of energy efficiency

We concentrate on energy-saving from the early design and research and development phase. All power supplies used for HTC products must comply with the relevant international energy consumption specifications, including Energy Star (U.S.), California Energy Commission (U.S.), Energy-related Products and are approved with energy efficiency verification by third-party verification companies.

For issues related to charging the cellphone, we have launched HTC Rapid Charger 3.0, a rapid-charging device with high energy-efficiency, whose charging speed is faster than used to be. In only 30 minutes would the new HTC 10 be charged up to 50% of its power. Its energy-efficiency has also reached the highest standard currently set internationally, including Energy Efficiency Level VI and EU CoC Tier 2, whose energy consumption during no load standby is lower than 0.03W and has reached the highest 5-star level. In terms of design, its volume has also seen 25% of reduction compared to its predecessors. In addition to reducing use of resource, it is also more convenient to carry.

##### b) Recyclability

Complete evaluation of a product for recyclability starts at an early stage of the R&D process. We conduct a simulation of disassembly and analyze the material composition of the product and relative recycling rate. In addition, we carry out a series of strategies such as material marking (as per the standards of ISO 11469 and ISO 1043) and component simplification and degree of ease of disassembly. The design of all current HTC products conforms to existing product recyclability requirements.

Recyclability is under consideration in material selection, and products are disassembled and analyzed by third-party fair organizations. The recycling rate of U11 and/or U11 EYE can reach to 83.3% and 80.1%, and exceed the material recycling rate criterion 70% of WEEE directive of EU for phone product substantially.

##### c) Reduction of hazardous substances

Products such as components, modules, and materials used by HTC all need to comply to the norms from the HTC’s list of controlled materials. Also, control for restricted materials is not limited to the 6 materials specified by RoHS and includes items specified by international regulations on environmental protection and international customers for control, such as Brominated Flame Retardant and Phthalates which new disclosed by RoHS 2.0.

For selection of the materials, we are also striving to find materials that are more environment-friendly and harmless to human body. For example, copper-beryllium alloy used on connectors inside the cellphones are themselves safe materials with mild properties. However, beryllium oxide harmful to human body might be produced during recycling. Therefore, we have been actively searching for replacement materials and will replace it once we are sure that there will be no concern about quality for the new materials. As a result, copper-beryllium alloy will not be used on the new products that came out since 2016.

#### 4.1.2 Sustainable packaging

All packaging materials HTC uses for its products fully comply to EU and US regulations on packaging (EU 94/62/EC and Model Toxics in Packaging Legislation of USA). In addition, all printing ink used on HTC product packaging are low volatile or soy ink that comply to standards from American Soy Association, as are required for minimizing impact of the product packaging to the environment.

A full-body light-weight design was specially selected for use of the cellphone cover boxes by HTC. They are made from molding with 65% of sugar cane residues and 35% of bamboo pulp. Compared to regular boxes made of wood, these boxes made of sugar cane residues and rapid-growing bamboos could be 100% decomposition and 100% recyclable, which are more environment-friendly and are also lighter than regular boxes.

HTC will list not only product information in accordance with the requirements of customers and related regulations, also describes in details of the energy saving functions and power saving functions in the product packaging boxes and manuals, and the environmental protection materials will be printed. In the mobile phone box, we promote environmental awareness and ideas to consumers.

	2009 Hero box	2013/2014 M7 BOX/M8 BOX	2015 M9 BOX	2016 M10 BOX	2017年 U11 box
Photos					
Volume	183x89x60mm	160x160x28mm	160x160x28mm	180.5x150.5x33.5mm	202x165.5x34.5mm
Weight	170g	95g	95g	111.2g	149.2g
Carbon footprint from transportation (kg CO2 eq)	1.59	0.89	0.89	1.04	1.4
ECO features	<ul style="list-style-type: none"> <li>Reduced volume of packaging by 50%</li> <li>Printed using soy ink</li> </ul>	<ul style="list-style-type: none"> <li>98% of packaging boxes used recyclable papers</li> <li>At least 75% of packaging materials used rapidly-growing materials (sugar cane &amp; bamboo).</li> <li>Printed using plant ink instead of ink</li> </ul>	<ul style="list-style-type: none"> <li>Materials for the packaging boxes are rapidly-growing materials</li> <li>Printed with single colors and decreased use of ink</li> <li>For printing, did not use other varnish methods for processing</li> <li>Decreased printing of upper label from 5C to 1C</li> </ul>	<ul style="list-style-type: none"> <li>Materials for the packaging boxes are rapidly-growing materials</li> <li>Decreased area of printing, decreased colors for the printing, and decreased use of ink</li> <li>Did not use varnish plastics</li> </ul>	<ul style="list-style-type: none"> <li>Materials is consist with current fast renewable plants.</li> <li>Reduce the printing area, printing color.</li> <li>Do not use glazing plastic.</li> </ul>

Note: Distance calculated: From HTC factory à airport (air freight) distribution center for the customer

In 2017, HTC extend the environmental protection concept to design the lightweight package and use the recyclable materials for VR, use of recyclable materials , reduced printing area , and Sharing the packaging to reduce the production of new packaging materials.

	2015 Rigid BOX	2016 Pizza Box	2017 Pizza box
Photos			
Volume	574x420x212mm	415x295x181mm	532x344x185mm
Weight (g)	3000g	1800g	2250g
Number of transportation pallets	 6pcs	 24pcs	 20pcs
Carbon footprint from transportation (kg CO2 eq)	28.14	16.88	21.11
ECO features	<ul style="list-style-type: none"> <li>Used dual colors for printing and decreased use of ink</li> </ul>	<ul style="list-style-type: none"> <li>Reduced 55% in volume</li> <li>Reduced 40% in weight</li> <li>Used dual colors for printing and decreased use of ink</li> </ul>	<ul style="list-style-type: none"> <li>Reduce the ink use .</li> <li>Packaging sharing ,</li> <li>Avoid New Packaging Materials.</li> </ul>

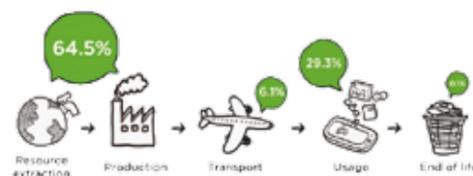
### 4.1.3 Sustainable product

In response to crisis of global warming, HTC continues to look for ways to reduce impact and effect left on the environment during the process of manufacturing, production, and consumer use. Life-cycle thinking (LCT) is the concept we use behind our thinking. Starting from our R&D effort, the LCT concept is introduced to provide quantitative green information to our RD engineers. We conduct LCT-related inspections on our supply chain to build up a database for burdens to the environment brought by major components.

HTC calculates the carbon footprint of its products based on ISO 14040 and ISO 14044, through direct data acquired by HTC manufacturing center from its upstream suppliers, along with indirect data acquired by the internationally-used software and database, SimaPro and Ecoinvent for assessing life cycles. After passing verification from a third party, it then publishes the report of carbon footprint for its products or its Eco Declaration, in an attempt to provide to related customers transparent information of the product in regard to the environment.

#### International standard on carbon footprint for the products

ISO/TS 14067 is the standard announced by International Standards Organization in May 2013 for the products carbon footprint. It specifies the calculation of carbon emission data during the full life cycle of the product starting from its design and manufacturing, as well as the policy and guidance for disclosure of the report, and can serve as the basis for carrying out check on carbon footprint for various products and services. Moreover, such a standard has become the convergence and basis for calculating and communicating about carbon footprint from products worldwide.



#### Recorded footprint related programs and reports

HTC has been analyzing the environmental influence of our products via life cycle evaluation since 2010. The action schemes in these years are as follows:

- In 2010, HTC participated in the “Guidance Program of Information Disclosure for Environmental Product” held by the Industrial Development Bureau, Ministry of Economic Affairs, and completed Environmental Product Declaration (EPD) in cooperation with 19 suppliers.
- In 2011, HTC participated in the “Guidance Program of Low Carbon Product Design System”, and completed guidance of carbon footprint analysis and low carbon design for 15 main suppliers.
- In 2013, HTC cooperated with 11 suppliers to complete the ISO/TS14067 product carbon footprint examination.
- In 2014, the main action scheme directly focused on providing detailed data of life cycle examination analysis to main suppliers for setting up the objective to reduce carbon and the action scheme.
- In 2015, HTC cooperated with 8 suppliers to complete the ISO/TS14067 product carbon footprint examination again.
- Completed analysis and checking of water footprint in its products in 2016.

#### 4.2 Energy and climate change

HTC implemented the ISO 50001 energy management system in 2011 to gain a full picture of internal energy use, the relevant regulatory requirements and the energy baseline to provide a reference for our energy performance indicators as well as set short-, mid- and long-term improvement goals. In 2009, HTC introduced the GHG emission inventory and disclosure for factories and offices throughout Taiwan. To this end, we have devised a dual-aspect strategy composed of adopting an energy management system and performing energy-saving practices. On one hand we strive to optimize our management system to reduce energy consumption, and on the other we use energy-saving technology to improve the energy efficiency of our products.

We even did it through active supply chain management and strengthening green design of products to reduce use of hazardous and wrapping materials. Use the influence of positive support to help smart mobile device users around the globe and go toward more smarter and lower carbon tasks and mode of living step by step. Total greenhouse gas emissions by HTC were 34,807.02 tons of CO<sub>2</sub>e in 2017. The majority of emitted gas were CO<sub>2</sub>. The cooling and air-conditioning systems in HTC’s buildings all use environment friendly coolant R-134a to further preserve the ozoneosphere.

HTC is not a heavy energy consumer. However, within a manageable range of its operations, it is taking initiatives in realizing the concepts of energy-efficiency and reduction of carbon emission by utilizing renewable energy.

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

#### 4.3 Water resource management

Climate change due to global warming has become increasingly evident making the storage and distribution of water resources an important issue. At HTC, even though our production processes are not water intensive, we still strive to reduce water consumption during routine consumption encouraging our people to maintain good water management, recycling, and reuse.

Sanitary facilities were the first purchase those with water efficiency labels like certificate of the use of water efficiency label from Water Resources Agency, Ministry of Economic Affairs, WaterSense Label from the United States Environmental Protection Agency or mainly facilities with water efficiency functions as tested by the Industrial Technology Research Institute (ITRI). In faucet facilities, swivel faucet aerators have been installed to reduce the waterflow. Tests run by ITRI show a water efficiency ratio of 64.4% and it is estimated that each faucet can save 77 liters of water a day. In bathroom facilities like toilets and urinals, high-efficiency products with WaterSense labels have been purchased.

Since dry process is used on the production line in our plant, there would be no industrial waste water generated and all water use would be from office and the dormitory where our colleagues live in. With a large area inside the plant used for greenery and tree planting, HTC aims to water those plants and greenery using the recycled and reprocessed water without increase in use of running water. Total amount of domestic waste water treated in 2017 was 245,990 tons, and the amount of recycling for the treated waste water was 182,002 tons, which was 73.99% of all waste water treated. The amount of recycling has surpassed the projected goal of 70% for 2017 and is higher than the 72.54% in rate of recycling for 2016.

Since implementation of the water-saving plan in 2014, the accumulated total amount of waste water recycled for watering and gardening plants reached 858,383 tons. The system was set up for recycling rainwater and condensed water from air conditioning. The water is then used in toilets and plants watering for effective water use. For 2017, the total amount of rainwater recycled was 8,755 tons, with 6,524 tons for Taoyuan Plant and 2,231 tons for Taipei headquarters office respectively.

#### 4.4 Waste reduction

HTC’s main production process is the assembly of smartphones. The production process produces no hazardous waste. We have strengthened our waste management and disposal model in accordance with the internal “Industrial Waste Disposal and Management Procedure”. We also practice through recycling and education. Proper disposal of waste ensures the cleanliness of the work environment and reduces environmental impact.

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

In addition, active promotion of concept of waste reduction through concrete measures like classification, recycling and management at the front end for employees to reduce waste generation as well as setting dedicated areas for general garbage, resource recycling, and kitchen waste to facilitate resource recycling and reuse, reduce amount of waste produced, and improve on the cleanliness of the environment. In 2017 the benefit of recycling reached NTD 5,194,508, waste recycling rate rose from 56.89% in 2011 to 78.09% in 2017 that would gradually reach the long term goal of 80% waste recycling rate. The recycled resources accounted for a total of about 2,434.060 tons.

Also in progress were promotion and enhancement of employees' concept and awareness of environmental protection. Through plural interfaces the idea of environmental protection had been in wide promotion and presented in expedient, interactive and clear forms of information to make employees witness HTC's efforts in environmental protection and then provide them with support in concrete ways to make them internalized in their daily routines.

#### 4.5 Green factory

In 2013, HTC's Taipei headquarters office received the green building mark from Ministry of the Interior and the golden LEED (Leadership in Energy & Environmental Design) certification from the U.S. Green Building Council (USGBC), offering its employees an excellent and comfortable low-carbon work environment. The requirement for energy-efficient design and use of high-efficiency equipment was implemented during project planning, design, and construction phases. Examples included the full use of LED lighting, ice storage system, energy-regenerating elevators, e-Tag smart parking management system, etc. The fully-integrated energy management system was utilized to attain a full real-time management and enhance efficiency of energy use. The total amount accumulated for reduction in carbon emission since inauguration of the building has reached 166,618 tons of CO<sub>2</sub>e. Issues are discovered through cross referential comparisons between the data measured and data from currently-available database, and the analysis for improvement is then conducted in order to adopt a better plan on energy efficiency. Issues are categorized into design-oriented, operation-oriented, and management-oriented, which are then traced back to the original system for improvement and assessment on economic effectiveness in order to achieve continuous improvement on energy efficiency, with the EUI (Energy Usage Intensity) of only 93.98 KWH per meter square annually in 2017.

After simulation and analysis on energy, the design on energy efficiency contributed to 1,119,646.90 degree of reduction, and the total amount of reduction in carbon emission was 590 tons of CO<sub>2</sub>e during 2017.

We set up solar panels on top of our employee dormitory, where solar radiation could be converted to thermal energy for supply to water heating systems. The thermal energy would be stored in a tank for supply of hot water to showering equipment, effectively reducing our usage of natural gas. With the effective use of solar panels, the total saving of natural gas for 2017 accounted for was 173,826.00 degrees, which translates to a reduction of 328 metric tons of CO<sub>2</sub> emission.

## (5) Social engagement: promotion of character education

### 5.1 HTC Foundation

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

#### Our vision:

Everyone has a good personality.  
People respect and support each other.  
Let us make the planet lovely together.

#### Our mission:

Our mission is to instill the core values of integrity, honesty, care, love, positive thinking, and respect for natural resources through education.

#### Our accomplishments:

##### Character Building Family Camp

A "Character Building Family Camp" was held by the HTC Foundation and Hualien Character and English Institute as a joint summer vacation family break. Separate courses were provided for parents and children. That for the parents lasted two days and no lodging was provided. The student's course spanned five days and four nights, and lodging were provided. Expenses were paid by the HTC Foundation and participation was free.

##### Character Building Family Camp-Parent Session

The content of the student courses was discussed during the parents' two-day study, and a session about communications skill entitled "Excellent Life-Expression Skills for Deep Communication" was held. This introduced several important concepts: the importance of values, image and value, the power of words, and tips for effective communication. The intention being that participating parents and students would continue practicing the character pointers and positive thinking they learned, so these would become parts of a character building process in the family.

##### Character Building Family Camp-Student Session

The 5-day study for the students covered five aspects of behavior: "respect, concentration, honesty, responsibility, and gratitude," and two attitudes: "positive thinking, and self-confidence."

"Character123" about practical conflict-resolving skills, and 10 English language sessions led by foreign teachers were also included.

(Continued)

### Character Town

HTC foundation not only launches character education in schools but also signs “Character Town” with various towns in Taiwan. Character Learning Course is launched every month with a way of character and setting a good example with our own conduct. Group discussion and experience sharing with different themes and related to work will be arranged timely. Participants include township police station public hospital fire department land office & household registration office-affiliated institutes. Parts of institutes turn into membership in the character association. Leaders in the institutes encourage good deed via communication and integration of thoughts, which becomes internal operating mechanism.

“Character First” course emphasize the concept definition and operational definition with the core value of nurturing the leader and the lead team work. Besides, it is believed that people can lead in different kinds of situation. The main goal of these courses is to nurture groups of cadre of basic level equipped with ethics and integrity. Since 2007, plan has been implemented in 18 institutes in Yuli Hualien, Yuanlin Changhua and Fuli Hualien etc.

### Many Blessings Courses

The HTC Education Foundation is committed to the development of character education for young people. It hopes to shape character through joint efforts by schools, parents, and society. Following the principle of “lighting a candle rather than cursing the darkness,” the foundation has established the “Many Blessings Course” for junior and senior high school students. These free courses each last for five weeks. They include three hours of training and activity per week. The students get the energy to move forward and make changes inspired by their instructors and volunteers. They are encouraged to become leaders who can actively serve the public and use their own power to change the world.

### Summer institute for character education

HTC Foundation has been dedicated to the implementation of character education. For many years, it has been providing high quality, systematic, and diverse resource for education and training through the “rock education implementation program” to help schools across Taiwan to implement character education more effectively. To help schools cultivate a character-based campus culture, nurture those school practicing character education, promote academic and practical dialogue for the character education to strengthen the ability of the schools’ leadership teams in implementation, the foundation has been inviting Dr. Marvin Berkowitz, lecturing professor on character education from College of Education, University of Missouri at St. Louis, to give a lecture in the “Summer Institute for Character Education” in Taiwan since 2012. As of 2016, there have been 184 people in total from the leadership teams made up of school principals and administration members from 27 schools who have participated in the five-day intensive immersion training.

(Continued)

This course has been taught in Missouri and other areas for 19 years. According to feedback from the 27 schools that participated in the last 5 years after the course, the course has been beneficial to both the participating teams and their members in core topics of the character education and nature of education or buildup of consensus for the leadership team. HTC Foundation will continue to hold this training course through its summer institute. It hopes that this course would help schools build up their own leadership teams for the character education on their campuses. Through collective efforts by the team members, the campus-based culture of character would be shaped to cultivate students’ growth and development in characters.

## 5.2 Other social engagement and actions

### 5.2.1 Blood donation

HTC regularly cooperates with the Hsinchu Blood Center to organize blood drives four times every year. Many “hot-blooded” employees have cultivated the habit of regular blood donation since 2006 so they always roll-up their sleeves when they hear that the blood donation bus is coming. The enthusiastic participation of HTC employees has led to the company being presented with a certificate of excellence for blood donation every year by the Hsinchu Blood Center. 161,750 c.c in total was accounted for the amount of blood donation from Taoyuan plant, and 126,750 c.c in total was accounted for the amount of blood donation from Taipei headquarter for the year of 2017.

### 5.2.2 HTC child support group

The HTC Child Support Group was founded in 2006 as an employee initiative. The club organizes donation drives with all proceeds going to the Taiwan Fund for Children and Families to help sponsor children in need. In 2017 the total donation to Taiwan Fund for Children and Families was NTD 1,649,440 and sponsored a total of 103 children. The sponsored children included 95 children from Taiwan and 8 children from abroad. The children we’ve sponsored in foreign countries included Guatemala, Indonesia, the Philippines, Senegal, Sri Lanka, Kyrgyz and Paraguay.

### 5.2.3 Charity program

#### 2017 Father’s Day

In Taiwan’s Fathers’ Day in August we invited Life Jazz Band to perform at our Headquarters in Taipei. Life Jazz Band is composed of several blind people and right before Fathers’ Day employees could feel their values and fight for life through music. Through this opportunity we also helped them to get more support for them to go toward their dreams.

**2017 Parent-Child Day**

In the 2017 Parent-Child Day activities, HTC not only had interesting and fun activities in store for employees and their dependents, the hall in Building H was specifically designed to be a VIVE Experience Area to give family and children the chance to experience different scenarios and rich game settings in person, many charitable organizations such as Chinese Rock Leadership Association, Chinese Christian Relief Association, Man Fair Workshop, Genesis Social Welfare Foundation and other non-profit organizations were also invited. This gave employees and their dependents the opportunity to support more of the disadvantaged groups through actual involvement in actions or donations when they took part in Parent-Child Day activities and voluntarily paid more attention to those disadvantaged groups. The bounteous fine food, children's competition games, cultural and artistic handiwork attracted 4,646 employees and 4,659 of their dependents to take part and created plenty of beautiful memories on the 2017 Parent-Child Day.

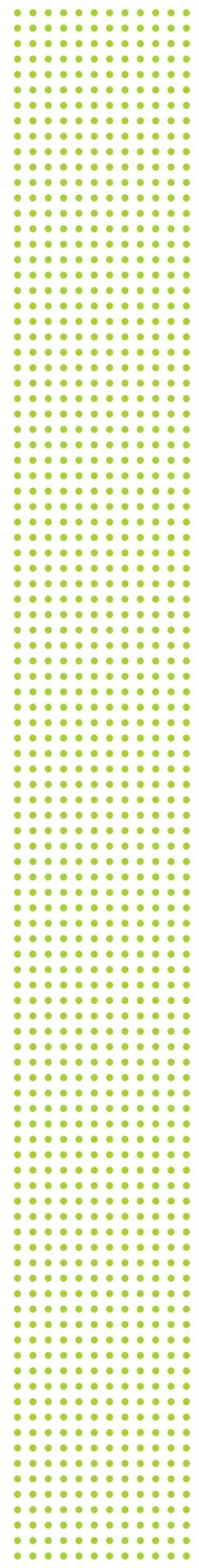
**Primary plan for taking part in social welfare organizations in 2017**

Christmas is a season worthy of giving thanks and blessing each other. For the 2017 Christmas, HTC's coworkers around Taiwan jointly took part in "Love, let dreams fly to the sky" program. We hoped to use real actions to help disadvantaged adolescents in Wanhua District, Taipei. The object of sponsorship was the House of Dreams in Ximending, Taipei. House of Dreams help disadvantaged/stray adolescents to find their direction again. About 500 young students received help every week in the Youth Center of the present House of Dreams. The Center accompanied more than 5,000 disadvantaged adolescents to go "from school to work" to give them a second home and a different future! We wish that through our support and encouragement, this group of adolescents at House of Dreams can have the motive to pursue their dreams through skill and vocational training to serve local youths from farmer or worker families.

These adolescents have unlimited potential so much like hot air balloons. Apart from coworkers taking part in hot air balloon purchase activity (NTD 500 a balloon), our colleague Yenyi Lee at Legal team of HTC also donated his photography works for auction in order to encourage these adolescent to pursue their dreams bravely.



# **CAPITAL AND SHARES**



# CAPITAL AND SHARES

## 1. Capital and Shares

### (1) Capitalization:

2018.04.28 Unit: Share; NT\$\$

Month/ Year	Price	Authorized		Paid-in		Sources of capital	Remark	
		Shares	Amount	Shares	Amount		Capital increase by assets other than cash	Other
03/1998	10	19,500,000	195,000,000	19,500,000	195,000,000	Cash offering	None	-
10/1998	10	200,000,000	2,000,000,000	100,000,000	1,000,000,000	Cash offering	None	Note 1
08/2000	40	200,000,000	2,000,000,000	125,000,000	1,250,000,000	Cash offering	None	Note 2
04/2001	163.5	200,000,000	2,000,000,000	127,600,000	1,276,000,000	Cash offering	None	Note 3
06/2002	10	200,000,000	2,000,000,000	162,720,000	1,627,200,000	Capitalization of profits	None	Note 4
09/2003	10	270,000,000	2,700,000,000	202,764,000	2,027,640,000	Capitalization of profits	None	Note 5
11/2003	131.1	270,000,000	2,700,000,000	217,164,000	2,171,640,000	Cash offering	None	Note 6
03/2004	10	270,000,000	2,700,000,000	218,731,347	2,187,313,470	Merger	None	Note 7
08/2004	10	450,000,000	4,500,000,000	271,427,616	2,714,276,160	Capitalization of profits	None	Note 8
01/2005	127.95	450,000,000	4,500,000,000	276,311,395	2,763,113,950	Conversion of ECB	None	Note 9
04/2005	127.95	450,000,000	4,500,000,000	288,763,321	2,887,633,210	Conversion of ECB	None	Note 9
09/2005	10	450,000,000	4,500,000,000	357,015,985	3,570,159,850	Capitalization of profits	None	Note 10
08/2006	10	550,000,000	5,500,000,000	436,419,182	4,364,191,820	Capitalization of profits	None	Note 11
04/2007	10	550,000,000	5,500,000,000	432,795,182	4,327,951,820	Capital reduction: Cancellation of Treasury Shares	None	Note 12
09/2007	10	650,000,000	6,500,000,000	573,133,736	5,731,337,360	Capitalization of profits	None	Note 13
08/2008	10	1,000,000,000	10,000,000,000	755,393,856	7,553,938,560	Capitalization of profits	None	Note 14
02/2009	10	1,000,000,000	10,000,000,000	745,393,856	7,453,938,560	Capital reduction: Cancellation of Treasury Shares	None	Note 15
08/2009	10	1,000,000,000	10,000,000,000	796,020,844	7,960,208,440	Capitalization of profits	None	Note 16

(Continued)

Month/ Year	Price	Authorized		Paid-in		Sources of capital	Remark	
		Shares	Amount	Shares	Amount		Capital increase by assets other than cash	Other
11/2009	10	1,000,000,000	10,000,000,000	788,935,844	7,889,358,440	Capital reduction: Cancellation of Treasury Shares	None	Note 17
04/2010	10	1,000,000,000	10,000,000,000	773,935,844	7,739,358,440	Capital reduction: Cancellation of Treasury Shares	None	Note 18
08/2010	10	1,000,000,000	10,000,000,000	817,653,285	8,176,532,850	Capitalization of profits	None	Note 19
07/2011	10	1,000,000,000	10,000,000,000	862,052,170	8,620,521,700	Capitalization of profits	None	Note 20
12/2011	10	1,000,000,000	10,000,000,000	852,052,170	8,520,521,700	Capital reduction: Cancellation of Treasury Shares	None	Note 21
10/2013	10	1,000,000,000	10,000,000,000	850,139,538	8,501,395,380	Capital reduction: Cancellation of Treasury Shares	None	Note 22
11/2013	10	1,000,000,000	10,000,000,000	842,350,538	8,423,505,380	Capital reduction: Cancellation of Treasury Shares	None	Note 23
02/2014	10	1,000,000,000	10,000,000,000	840,352,125	8,403,521,250	Capital reduction: Cancellation of Treasury Shares	None	Note 24
11/2014	10	1,000,000,000	10,000,000,000	830,352,125	8,303,521,250	Capital reduction: Cancellation of Treasury Shares	None	Note 25
11/2014	10	1,000,000,000	10,000,000,000	834,952,125	8,349,521,250	Issuance of Restricted Employee shares	None	Note 26
03/2015	10	1,000,000,000	10,000,000,000	828,038,125	8,280,381,250	Capital reduction: Cancellation of Treasury Shares	None	Note 27
05/2015	10	1,000,000,000	10,000,000,000	827,988,925	8,279,889,250	Capital reduction: Cancellation of Restricted Employee shares	None	Note 28

(Continued)



2018.04.28 Unit: Share

Type of stock	Authorized Capital			Remark
	Outstanding shares	Unissued Shares	Total	
Common Stock	820,809,855	179,190,145	1,000,000,000	Of our authorized capital, 80,000,000 shares are reserved for the exercise of stock warrants, preferred shares with warrants, or corporate bonds with warrants

**(2) Shareholder structure:**

2018.04.28

Structure	Shareholder							Total
	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Treasury stock (Note)		
Number of shareholders	2	8	360	820	123,161	1	124,352	
Shareholding	2,014	7,203,267	134,765,683	231,447,764	445,842,977	1,697,150	820,958,855	
Holding percentage	0.00%	0.88%	16.42%	28.19%	54.30%	0.21%	100.00%	

Note: The treasury stocks were the restricted employee shares withdrawn by HTC without compensation.

**(3) Distribution of ownership:**

2018.04.28 Each share has a par value of NT\$10

Shareholder Ownership (Unit : share)	Number of Shareholders	Ownership	Ownership (%)
1 - 999	35,066	2,560,690	0.31%
1,000 - 5,000	75,352	142,660,350	17.38%
5,001 - 10,000	7,667	59,533,736	7.25%
10,001 - 15,000	2,184	27,986,229	3.41%
15,001 - 20,000	1,285	23,736,758	2.89%
20,001 - 30,000	1,005	25,640,662	3.12%
30,001 - 40,000	505	18,134,979	2.21%
40,001 - 50,000	297	13,784,784	1.68%
50,001 - 100,000	513	36,297,267	4.42%
100,001 - 200,000	226	31,522,652	3.84%
200,001 - 400,000	104	28,362,526	3.45%
400,001 - 600,000	37	18,202,044	2.22%
600,001 - 800,000	27	18,615,163	2.27%
800,001 - 1,000,000	10	8,857,201	1.08%
Over 1,000,001	74	365,063,814	44.47%
Total	124,352	820,958,855	100.00%

**(4) List of principal shareholders:**

2018.04.28 Each share has a par value of NT\$10

Name of principal shareholders	Shares	
	Current Shareholding	Percentage
Way-Chih Investment Co., LTD.	43,819,290	5.34%
Way-Lien Technology Inc.	37,288,231	4.54%
Cher Wang	32,272,427	3.93%
Hon-Mou Investment Co., Ltd.	23,197,081	2.83%
Wen-Chi Chen	22,391,389	2.73%
HTC Corporation -GDR	12,653,645	1.54%
The Master Trust Bank of Japan, Ltd. as trustee for Government Pension Investment Fund - internal - MTBJ400045833	12,131,000	1.48%
Standard Chartered Bank in custody for VANGUARD EMERGING MARKETS STOCK INDEX FUND	11,836,221	1.44%
ABP Pension Investment Fund under the custody of JPMorgan Chase Bank	10,222,850	1.25%
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	9,838,792	1.20%

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

Item	Year				
	2016	2017	2018.01.01-2018.03.31		
Market price per share	Highest market price	136.5	82.1	75.6	
	Lowest market price	55.3	61.6	59.9	
	Average market price	86.55	72.16	66.6	
Net worth per share (Note)	Before distribution	62.98	41.05	66.52	
	After distribution	62.98	41.05	66.52	
Earnings (loss) per share	Weighted average shares (thousand shares)	824,084	821,593	833,415	
	Earnings (loss) per share	( 12.81)	( 20.58)	25.7	
	Retroactively adjusted earnings (loss) per share	( 12.81)	( 20.58)	25.7	
Dividends per share	Cash dividends	0	0	(Note)	
	Stock dividends	Dividends from retained earnings	0	0	(Note)
		Dividends from capital surplus	-	-	
	Accumulated undistributed dividend	-	-		
Return on investment	Price/Earnings ration	NA	NA		
	Price/Dividend ratio	NA	NA		
	Cash dividend yield	0%	0%		

Note : Pending on the approval of the 2018 Shareholders Meeting.

**(6) Dividend policy:****1. Dividend policy:**

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

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

1. To pay taxes.
2. To cover accumulated losses, if any.
3. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital.
4. To recognize or reverse special reserve return earnings.
5. The board of directors shall propose allocation ratios for any remainder profit after withholding the amounts under subparagraphs 1 to 4 above plus any unappropriated retained earnings of previous years based on the dividend policy above and propose such allocation ratio at the shareholders' meeting.

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

HTC will not distribute stock dividends at the 2018 Annual Shareholders' Meeting.

**3. There is no material change in dividend policy.****(7) Impact of the stock dividend proposal on operational performance and earnings per share:**

HTC will not distribute stock dividends at the 2018 Annual Shareholders' Meeting; therefore it is not applicable.

**(8) Compensation of Employees, Directors, and Supervisors****1. Percentage and scope of employee, Director and Supervisor compensation as stipulated in the Company's Article of Incorporation.**

If the Company makes profit for the current year, Company shall have minimum of 4% of such profit distributable as employees' compensation at in the form of stock or in cash as resolved by the board of directors. Employees of subsidiaries of the Company meeting certain specific requirements shall also be entitled to receive such stock or cash. Board of directors may resolve to distribute up to maximum of 0.25% of the profit of current year mentioned in preceding paragraph as remuneration to directors and supervisors. Proposed distribution of profit as employees' compensation and remuneration to directors and supervisors shall be presented at shareholders' meeting.

**2. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period.**

HTC will not distribute stock dividends at the 2018 Annual Shareholders' Meeting; therefore it is not applicable.

**3. Information on any approval by the board of directors of distribution of compensation:**

HTC will not distribute Employee Compensation at the 2018 Annual Shareholders' Meeting; therefore it is not applicable.

**4. The actual distribution of employee, director, and supervisor compensation for 2016**

No distribute Employee Compensation at the 2016.

**(9) Share repurchases:**

None

**2. Issuance of Corporate Bonds**

None

### 3. Status of Preferred Shares

None

### 4. Global Depository Receipts

		2018.04.28	
Issue Date	2003.11.19		
Issuance and Listing	Luxembourg		
Total amount	USD 105,182,100.60		
Offering price per GDR	USD 15.4235		
Units issued	9,015,121 units (note)		
Underlying securities	Cash offering and common shares from selling shareholders		
Common shares represented	36,060,497 shares (note)		
Rights and obligations of GDR holders	Same as that of common share holders		
Trustee	Not applicable		
Depository bank	Citibank, N.A.–New York		
Custodian bank	Citibank Taiwan Limited		
GDR <sub>s</sub> outstanding	3,163,408 units		
Apportionment of expenses for issuance and maintenance	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of GDR <sub>s</sub> were borne by HTC and the selling shareholders, while maintenance expenses such as annual listing fees and accounting fees were borne by HTC.		
Terms and conditions in the deposit agreement and custody agreement	See deposit agreement and custody agreement for details		
Closing price per GDR	2017	High	USD 10.73
		Low	USD 8.12
		Average	USD 9.50
		High	USD 10.22
		Low	USD 7.42
2018.01.01-2018.04.28	Low	USD 7.42	
	Average	USD 8.89	

Note: The total number of units issued includes the 6,819,600 units originally issued (representing 27,278,400 shares of common stock) plus additional units issued in stock dividends in past years on common shares underlying the overseas depository receipts, as itemized below.

18 August 2004: dividends issued on common shares underlying the overseas depository receipts in the amount of 216,088 additional units (representing 864,352 common shares)

12 August 2005: dividends issued on common shares underlying the overseas depository receipts in the amount of 70,290 additional units (representing 281,161 common shares)

1 August 2006: dividends issued on common shares underlying the overseas depository receipts in the amount of 218,776 additional units (representing 875,107 common shares)

20 August 2007: dividends issued on common shares underlying the overseas depository receipts in the amount of 508,556 additional units (representing 2,034,224 common shares)

21 July 2008: dividends issued on common shares underlying the overseas depository receipts in the amount of 488,656 additional units (representing 1,954,626 common shares)

9 August 2009: dividends issued on common shares underlying the overseas depository receipts in the amount of 170,996 additional units (representing 683,985 common shares)

3 August 2010: dividends issued on common shares underlying the overseas depository receipts in the amount of 311,805 additional units (representing 1,247,223 common shares)

26 July 2011: dividends issued on common shares underlying the overseas depository receipts in the amount of 210,354 additional units (representing 841,419 common shares)

### 5. Employee Share Warrants

Employee share warrants are adopted to attract and retain important talent necessary for the company's development, and to increase employees' commitment and dedication to the company, so as to jointly benefit the company and its shareholders. The 2<sup>nd</sup> and 3<sup>rd</sup> Grants were approved by Financial Supervisory Commission, Executive Yuan on September 9, 2013 and August 19, 2014, and the total quantities of the current issue are 15,000,000 and 20,000,000 units, respectively. Each stock warrant unit may be used to purchase one share of common stock of HTC. The share purchase price shall be the closing price of HTC common stock on the date of issuance of the employee stock warrants.

#### (1) Issuance of employee share warrants and impact to shareholders' equity

2018.04.28 / Unit: share and NT\$			
Employee Stock Options Granted	2 <sup>nd</sup> Grant	3 <sup>rd</sup> Grant	4 <sup>th</sup> Grant
Approval Date	September 9, 2013	August 19, 2014	August 19, 2014
Issue (Grant) Date	November 11, 2013	October 31, 2014	August 11, 2015
Number of Options Granted	15,000,000	19,000,000	1,000,000
Percentage of Shares Exercisable to Outstanding Common Shares	1.83%	2.31%	0.12%
Option Duration	The duration of the stock warrants is 7 years. The stock warrants and rights and interests therein may not be transferred, pledged, given to others, or disposed in any other manner, except by succession.	The duration of the stock warrants is 10 years. The stock warrants and rights and interests therein may not be transferred, pledged, given to others, or disposed in any other manner, except by succession.	The duration of the stock warrants is 10 years. The stock warrants and rights and interests therein may not be transferred, pledged, given to others, or disposed in any other manner, except by succession.
Source of Option Shares	New Common Share	New Common Share	New Common Share
Vesting Schedule(%)	After 2 full years have elapsed from the time the stock warrant holder is allocated the employee stock warrants, the warrant holder may exercise the share purchase rights according to the schedule set out below. Percentage of share purchase rights that may be exercised according to the time elapsed since the allocation of the stock warrants (cumulative) Two full years have elapsed: 60% Three full years have elapsed: 100%	After 2 full years have elapsed from the time the stock warrant holder is allocated the employee stock warrants, the warrant holder may exercise the share purchase rights according to the schedule set out below. Percentage of share purchase rights that may be exercised according to the time elapsed since the allocation of the stock warrants (cumulative) Two full years have elapsed: 60% Three full years have elapsed: 100%	After 2 full years have elapsed from the time the stock warrant holder is allocated the employee stock warrants, the warrant holder may exercise the share purchase rights according to the schedule set out below. Percentage of share purchase rights that may be exercised according to the time elapsed since the allocation of the stock warrants (cumulative) Two full years have elapsed: 60% Three full years have elapsed: 100%
Shares Exercised	0	0	159,000
Value of Shares Exercised	NTD 0	NTD 0	NTD 8,665,500
Shares Unexercised	6,405,400 shares	8,813,200 shares	451,000 shares
Adjusted Exercise Price Per Share	NTD149	NTD134.5	NTD54.5
Percentage of Shares Unexercised to Outstanding Common Shares	0.78%	1.07%	0.05%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited	Dilution to shareholder's equity is limited	Dilution to shareholder's equity is limited

Note: The information is calculated based on the issued shares, 820,809,855

## (2) Employee stock options granted to management team and to top 10 employees

2018.04.28 / Unit: share and NT\$

Title	Name	Number of Option Acquired	Number of Op-tion Acquired / Number of Op-tion Issued (Note1)	Exercised				Unexercised				
				Number of Option	Exercise Price per Shares (NTD)	Option amount	Number of Option /Number of Option Issued (Note1)	Number of Option	Unexercised Price per Shares (NTD) (Note 3)	Option amount	Number of Option /Number of Option Issued (Note 1)	
Managers	Chief Technology Officer	WH Liu										
	General Counsel	Marcus Woo										
	Associate Vice President	Hsiu Lai										
	President, Smartphone & Connected Devices Business	Chialin Chang (note 4)	3,570,000 shares	0.43%	0 shares	NTD 0	NTD 0	0%	3,570,000 shares	NTD 149, NTD134.5 and NTD 54.5	NTD 487,270,000	0.43%
	Chief Operating Officer	David Chen (note 5)										
	Vice President	Crystal Liu (note 6)										
Employee (Note 2)	Andre Loenne											
	Andrey Kormiltsev											
	Drew Bamford											
	Faisal Siddiqui											
	Johnson Chiang											
	Steve Wang	2,307,000 shares	0.28%	159,000 shares	NTD 54.5	NTD 8,665,500	0.02%	2,148,000 shares	NTD 149, NTD 134.5 and NTD 54.5	NTD 260,615,000	0.26%	
	Herman Chen (note 7)											
	Kim Dowung (note 8)											
	Peter Frolund Moeller (note 9)											
	Simon Hsieh (note 10)											

Note 1: The information is calculated based on the issued shares, 820,809,855

Note 2: The top 10 employees are granted employee stock options are without managerial position.

Note 3: The unexercised price per shares is calculated by the unexercised option amount to unexercised number of options.

Note 4: Chialin Chang was relieved from the position of insider manager on 14 Feb. 2018.

Note 5: David Chen was relieved from the position of insider manager on 30 Jan. 2018.

Note 6: Crystal Liu was relieved from the position of insider manager on 31 May 2018.

Note 7: Herman Chen resigned on 30 Jan. 2018.

Note 8: Kim Dowung resigned on 22 Jul. 2017.

Note 9: Peter Frolund Moeller resigned on 30 Sep. 2017.

Note 10: Simon Hsieh resigned on 30 Jan. 2018.

## 6. New Restricted Employee Shares

### (1) Issuance of restricted employee shares and impact to shareholders' equity

2018.04.28/Unit: Share and NT\$

Restricted Employee Shares Granted	1 <sup>st</sup> Restricted employee shares	2 <sup>nd</sup> Restricted employee shares	3 <sup>rd</sup> Restricted employee shares	4 <sup>th</sup> Restricted employee shares
Approval Date	2014.08.19	2014.08.19	2015.08.19	2015.08.19
Issue (Vest) Date	2014.11.02	2015.08.10	2015.12.23	2016.07.18
Number of Restricted Employee Shares Issued	4,600,000 shares	400,000 shares	4,006,000 shares	2,657,000 shares
Issued Price per Share	NTD 0	NTD 0	NTD 0	NTD 0
Percentage of Shares Exercisable to Outstanding Common Shares	0.56%	0.05%	0.49%	0.32%
Vesting Conditions for Exercise of Restricted Employee Shares	<ol style="list-style-type: none"> <li>1. An employee who remains employed at HTC after 1 year has elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares.</li> <li>2. An employee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares.</li> <li>3. An employee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 40% of the shares.</li> </ol>	<ol style="list-style-type: none"> <li>1. An employee who remains employed at HTC after 1 year has elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares.</li> <li>2. An employee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares.</li> <li>3. An employee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 40% of the shares.</li> </ol>	<ol style="list-style-type: none"> <li>1. An employee who remains employed at HTC after 1 year has elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares.</li> <li>2. An employee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 30% of the shares.</li> <li>3. An employee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfactory," will be eligible for vesting of an installment of 40% of the shares.</li> </ol>	<ol style="list-style-type: none"> <li>1. An awardee who remains employed at HTC after 1 year has elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the capital increase), and provided that the consolidated annual financial statement for the most recent fiscal year, based on the vesting date, states a net profit after tax, will be eligible for vesting of an installment of 25% of the shares.</li> <li>2. An awardee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and provided that the consolidated annual financial statement for the most recent fiscal year, based on the vesting date, states a net profit after tax, and that the profit has grown by 10% or more as compared to the consolidated net profit after tax in the most recently preceding profit-earning fiscal year, will be eligible for vesting of an installment of 25% of the shares.</li> <li>3. An awardee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and provided that the consolidated annual financial statement for the most recent fiscal year, based on the vesting date, states a net profit after tax, and that the profit has grown by 10% or more as compared to the consolidated net profit after tax in the most recently preceding profit-earning fiscal year, will be eligible for vesting of an installment of 25% of the shares.</li> <li>4. An awardee who remains employed at HTC after 4 years have elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the capital increase), and provided that the consolidated annual financial statement for the most recent fiscal year, based on the vesting date, states a net profit after tax, and that the profit has grown by 10% or more as compared to the consolidated net profit after tax in the most recently preceding profit-earning fiscal year, will be eligible for vesting of an installment of 25% of the shares.</li> </ol>
Restrictions to the Rights of New Restricted Employee Shares	<p>The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows:</p> <ol style="list-style-type: none"> <li>1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, new restricted employee shares.</li> <li>2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash dividends and cash rights issue subscriptions so obtained furthermore need not be placed in trust and shall not be restricted by the vesting period.</li> </ol>	<p>The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows:</p> <ol style="list-style-type: none"> <li>1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, new restricted employee shares.</li> <li>2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash dividends and cash rights issue subscriptions so obtained furthermore need not be placed in trust and shall not be re-stricted by the vesting period.</li> </ol>	<p>The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows:</p> <ol style="list-style-type: none"> <li>1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, new restricted employee shares.</li> <li>2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash dividends and cash rights issue subscriptions so obtained furthermore need not be placed in trust and shall not be re-stricted by the vesting period.</li> </ol>	<p>The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows:</p> <ol style="list-style-type: none"> <li>1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, new restricted employee shares.</li> <li>2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash dividends and cash rights issue subscriptions so obtained furthermore need not be placed in trust and shall not be re-stricted by the vesting period.</li> </ol>

(Continued)

Restricted Employee Shares Granted	1 <sup>st</sup> Restricted employee shares	2 <sup>nd</sup> Restricted employee shares	3 <sup>rd</sup> Restricted employee shares	4 <sup>th</sup> Restricted employee shares
Custody of Restricted Employee Shares	<ol style="list-style-type: none"> <li>After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a custodian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares.</li> <li>During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of instructions for the delivery, utilization, or disposition of the assets in trust.</li> </ol>	<ol style="list-style-type: none"> <li>After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a custodian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares.</li> <li>During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of instructions for the delivery, utilization, or disposition of the assets in trust.</li> </ol>	<ol style="list-style-type: none"> <li>After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a custodian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares.</li> <li>During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of instructions for the delivery, utilization, or disposition of the assets in trust.</li> </ol>	<ol style="list-style-type: none"> <li>After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a custodian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares.</li> <li>During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of instructions for the delivery, utilization, or disposition of the assets in trust.</li> </ol>
Procedures for Non-Compliance of the Conditions	<ol style="list-style-type: none"> <li>If an employee voluntarily resigns or his or her employment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation.</li> <li>Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.</li> </ol>	<ol style="list-style-type: none"> <li>If an employee voluntarily resigns or his or her employment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation.</li> <li>Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.</li> </ol>	<ol style="list-style-type: none"> <li>If an employee voluntarily resigns or his or her employment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation.</li> <li>Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.</li> </ol>	<ol style="list-style-type: none"> <li>If an employee voluntarily resigns or his or her employment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation.</li> <li>Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.</li> </ol>
Withdrawal of New Restricted Employee Shares	1,340,870 shares	44,500 shares	1,416,300 shares	2,036,750 shares
Unrestricted New Restricted Employee Shares	3,244,610 shares	215,100 shares	1,871,980 shares	0 shares
Restricted New Restricted Employee Shares	14,520 shares	140,400 shares	717,720 shares	620,250 shares
Percentage of Shares Unrestricted to Outstanding Common Shares	0.002%	0.02%	0.09%	0.08%
Impact on Shareholders' Equity	Dilution to shareholder's equity is limited			

Note: The information is calculated based on the issued shares, 820,809,855.

## (2) Restricted employee shares to management team and to top 10 employees

2018.04.28/Unit: Share and NT\$

Title	Name	Number of Restricted Employee Shares Acquired	Acquired / Outstanding Common Shares (Note1)	Number of Shares Restricted	Unrestricted		Restricted		Restricted		Restricted Employee Shares amount (Note1)
					Issued Price	Issued Amount	Restricted Employee Shares amount (Note1)	Number of Shares Restricted	Issued Price	Issued Amount	
Chief Technology Officer	WH Liu										
General Counsel	Marcus Woo										
Associate Vice President	Hsiu Lai										
Manager President, Smartphone & Connected Devices Business	Chialin Chang (note 3)	1,592,000 shares	0.19%	485,200 shares	NTD \$0	NTD \$0	0.06%	231,800 shares	NTD \$0	NTD \$0	0.03%
Chief Operating Officer	David Chen (note 4)										
Vice President	Crystal Liu (note 5)										
Employee (Note 2)	Adrian Tung										
	Frank Sun										
	Madeline Chen										
	Morris.CY Yang										
	Steve Wang										
	Allen Cheng (note 6)										
	Cliff Chou (note 7)	1,275,000 shares	0.16%	342,000 shares	NTD \$0	NTD \$0	0.04%	273,000 shares	NTD \$0	NTD \$0	0.03%
	Elmer Peng (note 8)										
	Jerry Chen (note 9)										
	Jimmy Ho (note 10)										
	Max Chuang (note 11)										
	Richard.CT Lin (note 12)										
	Saigon Tsai (note 13)										
	Simon Hsieh (note 14)										

Note 1: The information is calculated based on the issued shares, 820,809,855

Note 2: The top 10 employees granted restricted employee shares are without managerial position.

Note 3: Chialin Chang was relieved from the position of insider manager on 14 Feb. 2018.

Note 4: David Chen was relieved from the position of insider manager on 30 Jan. 2018.

Note 5: Crystal Liu was relieved from the position of insider manager on 31 May 2018.

Note 6: Allen Cheng resigned on 30 Jan. 2018.

Note 7: Cliff Chou resigned on 30 Jan. 2018.

Note 8: Elmer Peng resigned on 30 Jan. 2018.

Note 9: Jerry Chen resigned on 28 Feb. 2018.

Note 10: Jimmy Ho resigned on 30 Jan. 2018.

Note 11: Max Chuang resigned on 30 Jan. 2018.

Note 12: Richard.CT Lin resigned on 30 Jan. 2018.

Note 13: Saigon Tsai resigned on 30 Jan. 2018.

Note 14: Simon Hsieh resigned on 30 Jan. 2018.

## 7. Issuance of New Shares for Mergers and Acquisitions

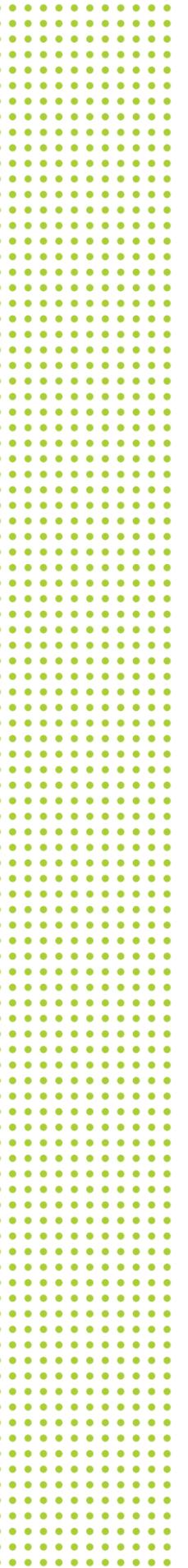
- (1) During the current fiscal year up to the date of printing of this annual report, the Company has not issued new shares for mergers and acquisitions.
- (2) During the current fiscal year up to the date of printing of this annual report, the Board of Directors has not adopted any resolution to issue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

## 8. Implementation of the Company's Funds Utilization Plan

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



**FINANCIAL STATUS,  
OPERATING  
RESULTS AND  
RISK MANAGEMENT**



# FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

## 1. Financial Status

Item	Unit: NT\$ thousands			
	2017	2016	Difference	%
Current Assets	38,489,385	68,562,382	( 30,072,997 )	( 44 )
Properties	10,798,613	12,025,496	( 1,226,883 )	( 10 )
Intangible Assets	2,315,441	3,878,356	( 1,562,915 )	( 40 )
Other Assets	14,981,967	18,682,948	( 3,700,981 )	( 20 )
Total Assets	66,585,406	103,149,182	( 36,563,776 )	( 35 )
Current Liabilities	32,807,450	51,274,276	( 18,466,826 )	( 36 )
Non-current Liabilities	52,828	103,400	( 50,572 )	( 49 )
Total Liabilities	32,860,278	51,377,676	( 18,517,398 )	( 36 )
Capital Stock	8,208,261	8,220,087	( 11,826 )	-
Capital Surplus	15,551,491	15,614,641	( 63,150 )	-
Retained Earnings	12,204,252	29,139,080	( 16,934,828 )	( 58 )
Other Equity	( 2,268,428 )	( 1,202,302 )	( 1,066,126 )	( 89 )
Non-controlling Interests	29,552	-	29,552	100
Total Stockholders' Equity	33,725,128	51,771,506	( 18,046,378 )	( 35 )

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

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

#### Assets:

Amount of the assets in 2017 is less than that in 2016. The main reason was because the continued deficit in this period caused net outflow of cash, as well the decrease of accounts receivable and the effectively inventory closeout all caused decrease in current assets.

#### Debt:

Due to the keen competition in its industry, the operation was in decline as compared to the previous period, causing decrease in payments such as the against accounts payable and marketing costs.

#### Shareholders' equity:

The continued deficit in this period caused decrease in equity in 2017 as compared to 2016.

## 2. Operating Results

Item	Unit: NT\$ thousands			
	2017	2016	Difference	%
Revenues	62,119,814	78,161,158	( 16,041,344 )	( 21 )
Gross Profit	1,339,692	9,434,591	( 8,094,899 )	( 86 )
Operating Loss	( 17,425,517 )	( 14,608,064 )	( 2,817,453 )	( 19 )
Non-operating Income and Expenses	466,682	4,024,116	( 3,557,434 )	( 88 )
Net Loss Before Tax	( 16,958,835 )	( 10,583,948 )	( 6,374,887 )	( 60 )
Net Loss From Continuing Operations	( 16,920,359 )	( 10,560,103 )	( 6,360,256 )	( 60 )
Non-Continuing Operations Loss	-	-	-	-
Net Loss	( 16,920,359 )	( 10,560,103 )	( 6,360,256 )	( 60 )
Other Comprehensive Income And Loss For The Year, Net of Income Tax	( 1,299,051 )	( 2,455,613 )	1,156,562	47
Total Comprehensive Income For The Year	( 18,219,410 )	( 13,015,716 )	( 5,203,694 )	( 40 )
(Loss) Profit For The Year Attributable To Owners Of The Parent	( 16,905,713 )	( 10,560,103 )	( 6,345,610 )	( 60 )
(Loss) Profit For The Year Attributable To Non-Controlling Interest	( 14,646 )	-	( 14,646 )	-
Total Comprehensive Income Attributable To Owners Of the Parent	( 18,205,286 )	( 13,015,716 )	( 5,189,570 )	( 40 )
Total Comprehensive Income Attributable To Non-Controlling Interest	( 14,124 )	-	( 14,124 )	-
Earnings Per Share	( 20.58 )	( 12.81 )	( 7.77 )	( 61 )

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

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

The fierce competition that continued in 2017 in the worldwide mobile market as well the price competition all resulted in lower revenues and gross profits than those of 2016. Even though the policy of austerity that effectively lowered operating costs, but the operation loss increased compared to 2016 was due to the gross margin decreased wildly.

The main reason caused to the variance of net non-operating incomes and expenses between 2017 and 2016 was because of disposal of some lands and buildings in 2016 that generated in-pour of gains in 2016.

Other changes in comprehensive income for 2017 and 2016 were mainly resulted from differences on variations of foreign financial statements due to fluctuations in international exchange rates.

### 3. Cash Flows

#### (1) Analysis of change in cash flow for the most recent fiscal year

Item	Year		
	2017	2016	%
Cash Flow Ratio (%)	( 57.94)	( 18.76)	( 39.18)
Cash Flow Adequacy Ratio (%)	( 480.86)	( 30.23)	( 450.63)
Cash Flow Reinvestment Ratio (%)	( 38.56)	( 14.49)	( 24.07)

#### Explanation and analysis of change:

The continued deficit in 2017 resulted in increase in net outflow of cash from operating activities as compared to 2016, with cash flow ratio therefore lowered to -57.94%, cash flow adequacy ratio lowered to -480.86%, and cash reinvestment ratio lowered to -38.56%

#### (2) Cash flow analysis for the coming year

We expect our cash on-hand can fully support capital expenditures and all other cash needs in 2018.

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

#### (1) Review and analysis of material capital expenditures and funding sources

##### 1. Material capital expenditure and funding sources

None

##### 2. Anticipated benefits

None

### 5. The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2017 and as of the date of this Annual Report: None

### 6. Investment Diversification in Recent Years

In 2017, the company continued to expand and deepen the ecosystem of virtual reality (VR) and augmented reality (AR), through strategic investment and the VIVE X accelerator program, to partner with incredibly talented and promising teams in VR and AR around the world to solve industry pain-points and improve user experiences across AR and VR and move the whole industry forward. New startups of batch 2 and batch 3 VIVE X Accelerator Program are focusing on foundational technologies and key verticals including enterprise, commerce, healthcare, entertainment, social and eSports. At present, the five VIVE X accelerator centers in the world will cultivate and grow the global VR and AR ecosystems.

### 7. Competitive Advantages, Business Growth and Assessment of Risks

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

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

##### • Factors favorable to HTC growth

##### (1) Collaborate with Global Virtual Reality Leaders to Drive Industry Change

The Asia-Pacific Virtual Reality Industry Alliance (APVRA) led by HTC joint with the 13 global

virtual reality leaders promoting the overall development of the VR ecosystem; the Vive X Global Accelerator Program operates to support and accelerate the growth of the world's most talented and innovative new startups. In the development of virtual reality, HTC has integrated the most advanced immersive virtual reality experience in the industry and will continue to gather leaders from all walks of life together to stimulate the imagination and inspiration, continue to innovate and develop the contents and applications of virtual reality environment, and realize the latest generation of innovative products and services in the future.

### (2) Actively deployment in 5G applications to enhance the future business development

The advantage of 5G's ultra-low latency will bring changes in the future smartphones and VR industry. The smartphone will be the first step for consumers to get in touch with 5G. As 5G lower the demand for computing power, smartphones will swift into new forms. In the 5G era, killer products including VR/AR, AI, etc., which will drive industrial transformation and create a new lifestyle. HTC has been cultivating in these fields for years. With collaborating with telecommunications companies, HTC is ready to take advantage of the trend of 5G technology and will focus on the creation of new technologies that will revolutionize the world and lead the industry to achieve the vision.

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

HTC promotes a unique corporate culture that is designed to instill passion for innovation and commitment to the highest quality. Our lack of barriers between departments promotes synergy and dynamism even further. High criteria of design and manufacture capabilities have been certified by numerous international management requirements, including ISO 9001, TL 9000, and IECQ QC 0800000. Outstanding in-house research and development capabilities give HTC the competitive edge to reach the market first with many industry leading innovations and features.

### (4) HTC VIVE PRO takes a technological lead in the rapidly developing VR market worldwide

With the rapidly developing VR market worldwide that continues to offer new features, HTC VIVE PRO utilized its industry-leading "Room-Scale" technology. The display system has also been upgraded to displays with higher resolutions to provide more vivid, more real and more immersive VR experiences to continue to get an important position in the market. What's more, the built-in high-end headphone and amplifier, new ergonomic design, easily adjusted size dial, dual active noise cancellation microphone, and the dual front cameras that can let developers fully develop their creativity are all that keep VIVE PRO remain a technology leader.

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

Many current and potential competitors already invested in the smartphone market looking to benefit from the competitive devices and price. Competition is expected to continue to intensify as the smartphone functions and features increase, and smartphone model lifecycles shorten. The following outlines HTC measures and response to such challenges.

- (1) We upgrade our materials requirement planning (MRP) system to improve our ability to manage material inventories, anticipate future demand in order to drive efficient inventory costs and reduce inventory devaluation risks. We continue to build and diversify supplier relationships to enhance supply stability. Our objectives are consistent and uninterrupted supply of all materials. HTC's leadership in the industry helps ensure that suppliers accommodate and meet HTC priorities in expanding market sales. This helps mitigate risks related to reliance on overseas suppliers for critical components. We also cultivated strategic business relationship with our suppliers.
- (2) Improve working efficiency to ensure maximizing the productivity in each stage; strengthen time management, standardize work operation, practice total quality management, follow the policy of continuous improvement, and reduce the unnecessary waste to enhance the competitiveness effectively.
- (3) Actively devoted to the VR market, with launch of HTC VIVE, HTC has taken advantage of its superb technology to bring several thousand developers and partners together to create a VR content that transcends across diverse fields, including gaming, entertainment, medical treatment, vehicles, retail, and education. The goal is to set up a close circle for the VR industry, expecting HTC VIVE to bring an all-new dynamic in growth.

## (2) Risk factors

The following describes identified risks and related mitigating measures.

### 1. Interest, forex, and inflation rate risks and mitigating measures

Impact on HTC profitability:

Item	2017 (NT\$1,000 or %)
Net Interest Income	250,255
Net Forex Income	372,427
Net Interest Income as percentage of Net Revenue	0.40%
Net Interest Income as percentage of Earnings Before Tax	-1.48%
Net Forex Income as percentage of Net Revenue	0.60%
Net Forex Income as percentage of Earnings Before Tax	-2.20%

Note: Calculated on HTC consolidated financial numbers

Working capital required to support HTC business operations over recent years has been supplied mainly from cash on hand. As the corporation has not taken out long-term loans, fluctuations in interest rates have had no effect on the Company's liabilities. HTC is prudent in its financial policies, and our asset allocation decisions prioritize security and fluidity, with most funds kept in time deposit accounts. In 2017, HTC interest income totaled NT\$ 250 million.

HTC's revenues are denominated primarily in US dollars (USD) and euros (EUR). Manufacturing costs are denominated primarily in US dollars. Forex fluctuations have the potential to impact HTC revenues, operating costs and operating profits. Apart from efficient management of the quality and payment cycles of its foreign currency denominated accounts receivable, HTC uses forward exchange contracts to minimize its forex risk. At the end of 2017, financial derivatives held by HTC related to exchange risk were valued at USD 440.5 million, EUR 28 million, GBP 3 million, JPY 6,918 million, CAD 3.5 million, SGD 3 million, CNH 750.6 million and AUD 11 million. Fair value of the derivatives changes as a result of forex fluctuations. An increase of 1% in the quoted exchange rate of any one of the abovementioned currencies against the NT dollar would result in a derivatives holding gain to HTC of approximately NT\$23.554 million.

During 2017, the US dollar against to the NT dollar fluctuated from 1:32.25 to 1:29.84. Net exchange income earned during 2017 totaled NT\$372.427 million. Under effective management by the Company, negative effects of exchange rate fluctuations on profits in recent years have been minimal.

During 2017, the inflation in Taiwan was approximately 0.6%, 2.1% in North American and 1.5% in European markets, the inflation were relatively negligible in 2017. Overall, inflation had no significant impact on HTC profits.

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

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

## **3. Future R&D plans and anticipated R&D expenditures**

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

In the existing smart phone production line, HTC has also put its focal R&D on 5G communication technologies and will realize mmWave as the primary goal, and then will focus on research and development of sub-6GHz. The high-bandwidth and low-latency features of 5G will make epoch-making progress in industry and business application scenarios. In the area of mobile phones, the company will keep developing technologies related to enhancing user experiences such as Edge Sense that supports more interactive functions, fast and accurate Face Unlock, wide-angle front

cameras to give users more perfect experiences in taking selfies with more and wider backgrounds in the lens. High-efficiency, low-distortion earphone amplifiers make the sound effects of the built-in speakers more splendid and awesome. We continue to invest in and enhance use of the all-new smart sensor hub system and provide all-new user experience, more intuitive and more convenient operating experience, plus higher commitment to developing increasingly important applications related to sports, fitness and information. Through seamless integration with HTC BlinkFeed™, we will provide users with more information on health.

For VR, HTC VIVE Pro™ has continuously earned highly acclamation in the market, even won 29 big rewards at CES. HTC has been working relentlessly aiming to bring the most immersive experience for our customers and to shape the future of virtual reality industry. We look to build HMD of higher resolutions and lighter weight to provide an even more immersive user experience. We are also working with various partners to build a VR platform that brings out the advantages of both software and hardware. In the past, HTC changed the world of mobile communication with leading technologies; in the future, HTC will continue to change people's lives in the virtual world.

Starting 2014, HTC has devoted a lot of resources on developing R&D talents and technological innovations, with a current count for R&D staffs representing close to 20% of the total worldwide staff count. Its investment on R&D resources represents approximately 30% of its operating income. HTC will continue to devote more R&D resources on various new products and technologies and closely match users' needs by penetrating into everyone's daily life and providing more information to the users. These smart products and technologies will also push the HTC brand to a higher position, further strengthening the company's long-term competitiveness.

## **4. Effects of domestic / foreign government policies and regulations on HTC finances and response measures**

In response to the amendment to the Labor Standards Act regarding one fixed day off and one flexible rest day that HTC made the changes to follow the statutory rules and would lead to increase in personnel costs of the company, the company has fully put the impact of the changes on the operating results into consideration and has related financial control measures in place.

## **5. Effects on HTC finances of changes in technology and industry trends and response measures**

VR is an important growth sector within the IT industry HTC has leveraged outstanding R&D capabilities in partnerships with global developers to create a VR ecosystem. HTC continues to invest more developing resources to ensure HTC's leadership position in the VR market and technology. HTC will also continue to use its resources to develop new technologies and enhance the holistic user experience in order to deliver products and services that fit all the market demands.

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

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

## 7. Anticipated benefits / potential risks related to mergers and acquisitions and mitigating measures

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

## 8. Anticipated benefits / potential risks of HTC plant expansion plans and mitigating measures

In response to global market demand for smartphone devices and connected devices, in addition to the continuous review and improvement of manufacturing processes to improve production capabilities, quality, and cost savings, HTC also reviews the utilization of current plants and equipment, and further more to apply the international brand of outsourcing OEM/ODM production of high-end portable devices to maximize the benefit. HTC has already disposed of the idle plant in Shanghai, China. There is no demand for plant expansion.

## 9. Concentration risks associated with goods received and sold and mitigating measures Purchases:

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

### Sales:

HTC products are distributed across the Americas, Europe and Asia primarily through major carriers and local retail channels. Apart from working with current customers to expand markets and strengthen strategic partnerships, HTC continues to discuss potential cooperative projects with leading IT and telecom companies in order to remain at the fore of market trends. HTC is also developing the HTC brand and strengthening relationships with channel retailers in order to reduce business and sales concentration risks.

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

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

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

There is no change on management team in the past 1 year.

## 12. Lawsuit:

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

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

In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent owned by IPCom with the High Court in London, the United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in above-mentioned Courts in Germany and the United Kingdom are still ongoing. The Company implemented the alternative solution since 2012. The Company evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against the alternative solution of the Company are very unlikely.

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

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

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

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

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

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

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

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.

- (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.

### 13. Other important risks and mitigating measures being or to be taken

None.

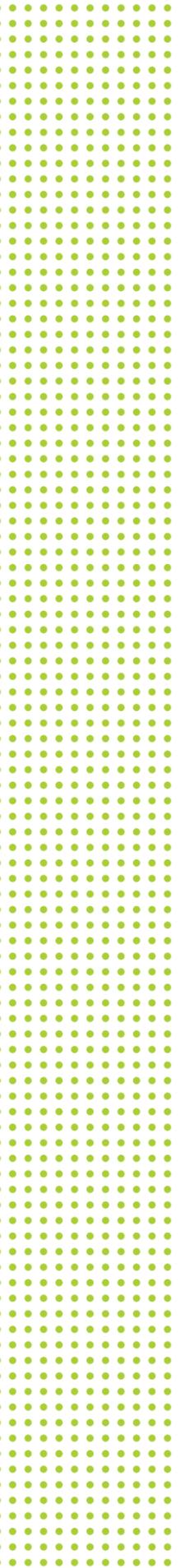
## 8. Other Important Matters

### (1) Certification details of employees whose jobs are related to the release of the company's financial information

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



**AFFILIATE  
INFORMATION AND  
OTHER SPECIAL  
NOTES**

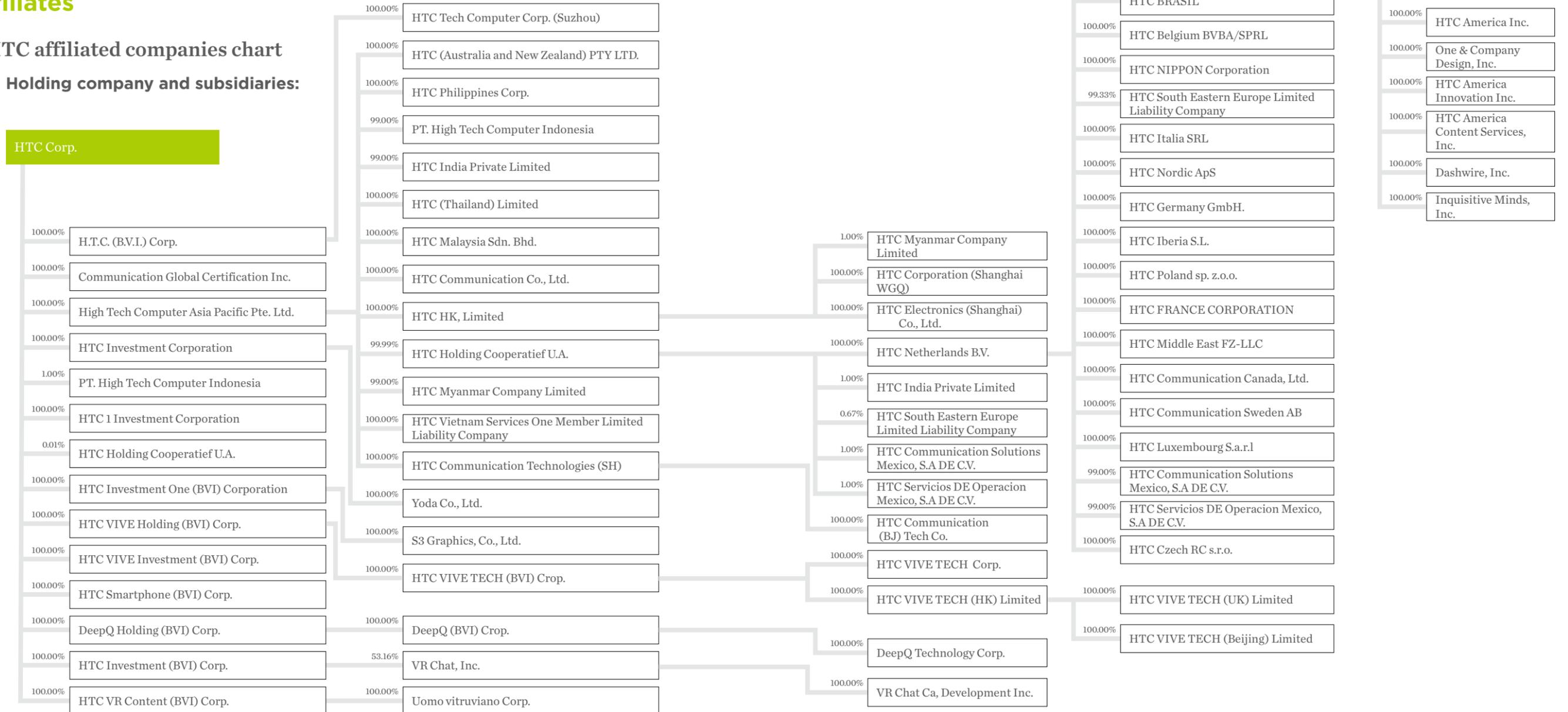


# AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

## 1. Affiliates

### (1) HTC affiliated companies chart

#### 1. Holding company and subsidiaries:



#### 2. Reciprocal affiliation: None

**(2) HTC affiliated companies**

2017.12.31; Amount in thousands

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investor:				
HTC Corporation	1997.05.15	No.23, Xinghua Rd., Taoyuan City, Taoyuan County 330, Taiwan, R.O.C.	NTD8,208,261	Principally engaged in the design, manufacture and marketing of PDA phones, smartphones and handheld devices, as well as the provision of related technologies and after services
Investee:				
H.T.C. (B.V.I.) Corp.	2000.08.01	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 3,808,053 (USD127,620)	International holdings and general investing activities
Communication Global Certification Inc.	1998.09.01	4F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 290,568	Import of controlled telecommunications radio frequency devices and information software services
High Tech Computer Asia Pacific Pte. Ltd.	2007.07.12	111 Somerset Road, #11-01 Triple One Somerset, Singapore 238164	NTD15,159,028 (SGD 679,258)	International holdings, marketing, repair and after-sales services
HTC Investment Corporation	2008.07.24	1F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 300,000	General investing activities
HTC I Investment Corporation	2009.09.14	4F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 295,000	General investing activities
HTC Investment One (BVI) Corporation	2011.06.20	3F, Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 9,958,259 (USD 333,733)	Holding S3 Graphics Co., Ltd. and general investing activities
HTC Investment (BVI) Corp.	2015.07.29	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 537,102 (USD 18,000)	General investing activities
HTC VIVE Holding (BVI) Corp.	2015.08.31	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD208,873 (USD 7,000)	International holdings
HTC VIVE Investment (BVI) Corp	2016.09.01	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 149,195 (USD 5,000)	General investing activities
DeepQ Holding (BVI) Corp.	106.03.08	3rd Floor, J & C Building P.O. Box 362 Road Town, Tortola British Virgin Islands, VG1110	NTD 119,356 (USD 4,000)	International holdings
HTC Smartphone (BVI) Corp.	106.07.19	3rd Floor, J & C Building P.O. Box 362 Road Town, Tortola British Virgin Islands, VG1110	NTD 985 (USD 33)	International holdings
HTC VR Content (BVI) Corp.	106.07.05	3rd Floor, J & C Building P.O. Box 362 Road Town, Tortola British Virgin Islands, VG1110	NTD 10,444 (US D350)	International holdings
HTC Tech Computer Corp. (Suzhou)	2003.01.01	Suzhou Industrial Park, China	NTD 2,984 (USD100)	Manufacturing and sale of smart handheld devices and electronic components
HTC (Australia and New Zealand) PTY LTD.	2007.08.28	Unit 18 Level2 97 Pacific Highway Sydney NSW 2060, Australia	NTD 93,026 (AUD 4,000)	Marketing, repair and after-sales services
HTC Philippines Corporation	2007.12.06	UNIT 32 3/F WORLDNET BUSINESS CENTER ZETA BLDG 191, SALCEDO ST LEGASPI VILLAGE, MAKATI CITY 1229	NTD5,968 (USD 200)	Marketing, repair and after-sales services
PT. High Tech Computer Indonesia	2007.12.03	PLAZA SEMANGGI 7th Floor, unit No. Z07-006 Kawasan Bisnis Granadha Jl. Jend. Sudirman Kav. 50 Jakarta -12930 Indonesia	NTD 3,738 (IDR 1,699,313)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC (Thailand) Limited	2007.11.06	No. 53 Sivayathorn Building, 14th Floor, Room No. 1401, Wittayu Road, Lumpini Sub-district, Patumwan District, Bangkok, Thailand	NTD22,876 (THB 25,000)	Marketing, repair and after-sales services
HTC India Private Limited	2008.01.30	Unit No.4, Ground Floor, BPTP Park Centra, Sector 30, NHS, Gurgaon 12200, Haryana, India	NTD2,334 (IDR 5,000)	Marketing, repair and after-sales services
HTC Malaysia Sdn. Bhd.	2007.11.07	Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	NTD 1,840 (MYR 250)	Marketing, repair and after-sales services
HTC Communication Co., Ltd.	2008.12.29	2F South, No.1000, Xinmiao Village, Kangqiao Town, Pudong New Area, Shanghai, China	NTD3,804,473 (USD 127,500)	Sale of smart handheld devices and electronic components
HTC HK, Limited	2006.08.26	Unit A, 32/F, @ Convoy, 169 Electric Road, Hong Kong	NTD 3,987,219 (HKD 1,044,376)	International holdings, marketing, repair and after-sales service
HTC Holding Cooperatief U.A.	2009.08.18	Secoya Building, Papendorpseweg 99, 3528 BJ, Utrecht, Netherlands	NTD6,249,470 (EUR 175,234)	International holdings
HTC Communication Technologies (SH)	2011.08.01	Room 102, No.2, Boujun Road, Zhang Jiang Hi-Tech Park, Shanghai, China	NTD119,356 (USD 4,000)	Design, research and development of application software
HTC Myarmar Company Limited	2013.07.31	No. 174-182, Pansodan Road (Middle Block), Kyauktada Township, Yangon, Myanmar	NTD2,172 (MMK 98,978)	Marketing, repair and after-sales services
HTC Vietnam Services One Member Limited Liability Company	2014.09.27	No. 1-5, Le Duan Street, Beb Nghe Ward, District1, Ho Chi Minh City, Vietnam	NTD5,541 (VND 4,230,000)	Marketing, repair and after-sales services
S3 Graphics Co, Ltd.	2001.01.03	P.O. Box 709 George Town Grand Cayman	NTD 9,190 (USD 308)	Design, research and development of graphics technology
Yoda Co., Ltd.	2012.09.24	4F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 20,000	Restaurants and parking lot business, and building cleaning services
HTC Corporation (Shanghai WGQ)	2007.07.09	6A, No.288, Hedan Rd., Waigaoqiao Free Trade Zone, Shanghai, China	NTD 44,759 (USD 1,500)	Repair and after-sales services
HTC Electronics (Shanghai) Co., Ltd.	2007.01.22	Room 123, No. 2502, Hunan Road, Kangqiao Industrial Zone, Nanhui District, Shanghai, China	NTD3,965,872 (USD 132,909)	Manufacture and sale of smart handheld devices and electronic components
HTC Communication (BJ) Tech Co.	2014.06.04	Floor 4 401 South Zone, No.7, Courtyard 1, Zhongguancun East Road, Haidian District, Beijing	NTD 48,064 (RMB 10,500)	Design, research and development of application software
HTC Netherlands BV.	2009.11.11	Secoya Building, Papendorpseweg 99, 3528 BJ, Utrecht, Netherlands	NTD513,346 (EUR 143,882)	International holdings, marketing, repair and after-sales service
HTC EUROPE CO., LTD.	2003.07.09	Salamanca Wellington Street Slough Berkshire England SL1 1YP	NTD2,784,179 (GBP 69,270)	International holdings, marketing, repair and after-sales service
HTC BRASIL	2006.10.25	Rua James Joule, No.92, Suite 82, 7th Floor, Edificio Plaza.1, in the City of Sao Paulo, State of Sao Paulo.	NTD17,899 (BRL 1,987)	Marketing, repair and after-sales services
HTC Belgium BVBA/SPRL	2006.10.12	Havenlaan 86/c, box 204 - 1000 Brussels	NTD 678 (EUR 19)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC NIPPON Corporation	2006.03.22	13F, Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo Japan	NTD2,649 (JPY 10,000)	Sale of smart handheld devices and electronic components
HTC FRANCE CORPORATION	2010.04.02	47-49 rue de Sevres 92100 Boulogne-Billancourt France	NTD 392,299 (EUR 11,000)	Marketing, repair and after-sales services
HTC South Eastern Europe Limited Liability Company	2010.04.27	Kifissias 90, Marousi 15125, Athens, Greece	NTD 160 (EUR 4.5)	Marketing, repair and after-sales services
HTC Nordic ApS.	2010.07.01	c/o Redmark, Sommervej 31 C, Hasle, 8210 Aarhus V	NTD383 (DKK 80)	Marketing, repair and after-sales services
HTC Italia SRL	2007.02.19	Viale dell' Esperanto, 71 00144 Roma	NTD357 (EUR 10)	Marketing, repair and after-sales services
HTC Germany GmbH.	2010.09.06	4th Floor, Zeil 83 60313 Frankfurt am Main	NTD 892 (EUR 25)	Marketing, repair and after-sales services
HTC Iberia S.L.	2010.10.08	Avda. de la Industria 4, Natea Business Park, Edif 3. planta 3 D 28108 Alcobendas, Madrid Spain	NTD 107 (EUR 3)	Marketing, repair and after-sales services
HTC Poland sp. z o.o.	2010.09.01	ul. Postępu 21B 02-676 Warszawa Poland	NTD 1,998 (PLN 234)	Marketing, repair and after-sales services
HTC Communication Canada, Ltd.	2011.01.25	2900-550 Burrard Street, Vancouver BC V6C 0A3, Canada	NTD 44,759 (USD 1,500)	Marketing, repair and after-sales services
HTC Communication Sweden AB	2011.09.26	C/o Revideco AB Drottningholmsvägen 22 112 42 Stockholm	NTD 3,618 (SEK 1,000)	Marketing, repair and after-sales services
HTC Luxembourg S.a.r.l.	2011.05.31	9, rue Gabriel Lippmann, L-5365 Munsbach, Grand Duche de Luxembourg	NTD 446 (EUR 12.5)	Online/download media services
HTC Middle East FZ-LLC	2012.07.08	3701A&3704A, 37 Floor, Business Central Towers, Dubai, United Arab Emirates	NTD 28,430 (AED 3,500)	Marketing, repair and after-sales services
HTC Communication Solutions Mexico, SA DE CV.	2015.04.01	Paseo de la Reforma 505 piso 32 Col Cuauhtemoc. Cp 06500 Mexico DF.	NTD 76 (MXN 50)	Marketing, repair and after-sales services
HTC Servicios DE Operacion Mexico, SA DE CV.	2015.04.01	Paseo de la Reforma 505 piso 32 Col Cuauhtemoc. Cp 06500 Mexico DF.	NTD 76 (MXN 50)	Human resource management
HTC Czech RC s.r.o.	2015.06.01	Lidická 700/19, Veveří, 602 00 Brno, Česká republika	NTD 34,445 (CZK 24,715)	Sale of smart handheld devices and electronic components
HTC America Holding Inc.	2010.04.23	308 Occidental Ave S 3rd floor, Seattle, WA 98104	NTD 7,344,154 (USD 246.126)	International holdings
HTC America Inc.	2003.01.06	308 Occidental Ave S 3rd floor, Seattle, WA 98104	NTD 5,012,952 (USD 138,000)	Sale of smart handheld devices and electronic components
One & Company Design, Inc.	2003.10.04	2700 18th Street San Francisco, CA, USA, 94110	NTD1,074 (USD 36)	Design, research and development of application software
HTC America Innovation Inc.	2010.04.23	308 Occidental Ave S 3rd floor, Seattle, WA 98104	NTD 89,517 (USD 3,000)	Design, research and development of application software
HTC America Content Services, Inc.	2011.03.28	308 Occidental Ave S 3rd floor, Seattle, WA 98104	NTD390,891 (USD13,100)	Online/download media services
Dashwire, Inc.	2006.08.11	936 N. 34th Street, Suite 200 Seattle, WA 98103	NTD 0.003 (USD 0.0001)	Cloud Synchronization Technology design and management
Inquisitive Minds, Inc.	2008.12.04	655 W Evelyn Ave, Suite 3, Mountain View, CA94041	NTD 0.030 (USD 0.001)	Development and sale of Digital Education Platform

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC VIVE TECH (BVI) Corp.	2015.08.31	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD208,873 (USD 7,000)	International holdings
HTC VIVE TECH Corp.	2015.12.21	8F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 1,000	Research, development and sale of virtual reality devices
HTC VIVE TECH (HK) Limited	106.06.21	RM. 2401, 101 King's Road, Fortress Hill, Hong Kong	NTD 202,905 (USD 6,800)	Research, development and sale of virtual reality devices
HTC VIVE TECH (Beijing) Limited	106.06.02	RM 601 ,601-3, 6F, VIA Building, Building 7, No.1 Zhongguancun East Road, Hadian District , Beijing	NTD23,871 (USD 800)	Research, development and sale of virtual reality devices
HTC VIVE TECH (UK) Limited	106.06.23	Salamanca, Wellington Street, Slough, Berkshire, United Kingdom SL1 1YP	NTD179,034 (USD6,000)	Research, development and sale of virtual reality devices
DeepQ (BVI) Corp.	106.03.02	3rd Floor, J & C Building P.O. Box 362 Road Town, Tortola British Virgin Islands, VG1110	NTD 118,461 (USD 3,970)	International holdings
DeepQ Technology Corp.	106.06.21	15F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD115,000	health technology and health care business
VRChat, Inc.	104.11.30	288 Bryn Mawr Cir, Houston TX 77024, USA	NTD140,780 (USD4,718)	Software development of virtual reality
Uomo vitruviano Corp.	106.09.15	11F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD10,000	Software development of virtual reality
VRChat, Ca. Development Inc.	105.01.01	288 Bryn Mawr Cir, Houston TX 77024, USA	NTD20,035 (USD843)	Software development of virtual reality

Note: Paid-in capital is translated at the exchange rates prevailing on 2017.12.31.

### (3) Common shareholders of HTC and its subsidiaries or its affiliates with actual deemed Control:

None.

#### (4) Industries covered by the businesses operated by all affiliates and intra-firm division of labor:

##### (1) Industries covered by the businesses operated by all affiliates:

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

##### (2) Division of labor among all affiliates:

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

- The primary business of HTC Holding Cooperatief U.A, HTC America Holding Inc., HTC VIVE TECH (BVI) Corp., DeepQ Holding (BVI) Corp., HTC Smartphone (BVI) Corp., HTC VR Content (BVI) Corp., and DeepQ (BVI) Corp. is international holdings.
- The primary business of H.T.C. (B.V.I.) Corp. is international holdings and general investing activities.
- Communication Global Certification Inc. engages in the import of controlled telecommunications radio frequency devices and information software services.
- The primary business of HTC Investment Corporation, HTC I Investment Corporation, HTC Investment (BVI) Corp. and HTC VIVE Investment (BVI) Corp. is general investing activities.
- High Tech Computer Corp. (Suzhou), HTC Electronics (Shanghai) Co., Ltd. and HTC Czech RC s.r.o. engage in the manufacture and sale of smart handheld devices.
- HTC Corporation (Shanghai WGQ) engages in detect, after-sales services, and technical Advisory of smart handheld devices.
- HTC Communication Co., Ltd. engages in the sale of smart handheld devices.
- HTC America Innovation Inc., One & Company Design Inc., HTC Communication (BJ) Tech Co. and HTC Communication Technologies (SH) engage in design, research and development of application software.
- HTC America Inc., and HTC NIPPON Corporation, engage in the sale of smart handheld devices and electronic components.
- High Tech Computer Asia Pacific Pte. Ltd., HTC HK, Limited, and HTC Netherlands B.V., and HTC EUROPE CO., LTD. engage in global investing activities, marketing, repair and after-sales service.
- HTC Luxembourg S.a.r.l. and HTC America Content Services, Inc. engage in online and download media services.
- Dashwire, Inc. engages in design and management of cloud synchronization technology.
- Inquisitive Minds, Inc. is mainly engaged in development and sale of digital education platform.
- HTC Investment One (BVI) Corporation is mainly engaged in acquisitions and general investment for S3 Graphics Co., Ltd.
- The primary business of S3 Graphics Co, Ltd. is design, research and development of graphics technology.
- Yoda Co., Ltd. is mainly engaged in restaurant and parking lot business as well as building cleaning services.
- HTC Servicios DE Operacion Mexico, S.A DE C.V. is mainly engaged in human resource management.
- HTC VIVE TECH Corp., HTC VIVE TECH (HK) Limited, HTC VIVE TECH (Beijing) Limited, and HTC VIVE TECH (UK) Limited is mainly engaged in research, development and sale of virtual reality devices.
- DeepQ Technology Corp. is mainly engaged in health technology and health care business.
- VRChat, Inc., Uomo vitruviano Corp., and VRChat. Ca. Development Inc. are mainly engaged in Software development of virtual reality
- The remaining companies engage in marketing, repair and after-sales services.

#### (5) Information of Directors, Supervisors, and Presidents of HTC affiliated companies

2017.12.31 Unit: NT\$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
<b>Investor:</b>				
HTC Corporation	Chairwoman	Cher Wang	32,272,427 shares	3.93%
	Director	Wen-Chi Chen	22,391,389 shares	2.72%
	Director	HT Cho	96,530 shares	0.01%
	Director	David Bruce Yoffie	-	-
	Independent Director	Chen-Kuo Lin	-	-
	Independent Director	Josef Felder	300,000 shares	0.04%
	Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	43,819,290 shares	5.34%
	Supervisor	Huang-Chieh Chu	-	-
<b>Investee:</b>				
H.T.C. (B.V.I.) Corp.	Chairwoman	HTC Corporation Representative: Cher Wang	1,475,201,760 shares	100.00%
Communication Global Certification Inc.	Chairperson	HTC Corporation Representative: David Chen	29,056,807 shares	100.00%
	Director	HTC Corporation Representative: Simon Hsieh, Hsiu Lai	29,056,807 shares	100.00%
	Supervisor	HTC Corporation Representative: Ralph Wang	29,056,807 shares	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	Director	HTC Corporation Representative: Cher Wang, Marcus Woo, Lim Tiong Beng	524,534,059 shares	100.00%
HTC Investment Corporation	Chairperson	HTC Corporation Representative: Cher Wang	30,000,000 shares	100.00%
	Director	HTC Corporation Representative: Peter Shen, Marcus Woo	30,000,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Hsiu Lai	30,000,000 shares	100.00%
HTC I Investment Corporation	Chairperson	HTC Corporation Representative: Cher Wang	29,500,000 shares	100.00%
	Director	HTC Corporation Representative: Peter Shen, Marcus Woo	29,500,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Hsiu Lai	29,500,000 shares	100.00%
HTC Investment One (BVI) Corporation	Director	HTC Corporation Representative: Cher Wang	333,733,246 shares	100.00%
HTC Investment (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen	18,000,000 shares	100.00%

(Continued)

2017.12.31 Unit: NT\$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
HTC VIVE Holding (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen, Dannie Liu	7,000,000 shares	100.00%
HTC VIVE Investment (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen, Dannie Liu	2,000,000 shares	100%
DeepQ Holding (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen, Dannie Liu	4,000,00 shares	100%
HTC Smartphone (BVI) Corp.	Director	HTC Corporation Representative: Ralph Wang	33,066 shares	100%
HTC VR Content (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen, Dannie Liu	350,000 shares	100%
HTC Tech Computer Corp. (Suzhou)	Chairperson	H.T.C. (B.V.I.) Corp. Representative: David Chen	USD 100 thousands	100.00%
HTC (Australia and New Zealand) PTY LTD	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Ralph Wang, Dannie Liu, Elson Pow	400,000 shares	100.00%
HTC Philippines Corporation	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Ralph Wang, Dannie Liu, Majorie L. Elic, Juancho S. Ong, Edgardo C. Abenis	858,765 shares	100.00%
PT. High Tech Computer Indonesia	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Jackson Yang	185,625 shares	99.00%
	Director	HTC Corporation Representative: Jackson Yang	1,875 shares	1.00%
	Supervisor	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang	185,625 shares	99.00%
	Supervisor	HTC Corporation Representative: Edward Wang	1,875 shares	1.00%
HTC (Thailand) Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Faisal Siddiqui, Ralph Wang	10,000,000 shares	100.00%
HTC India Private Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Ralph Wang, Dannie Liu, Faisal Siddiqui	495,000 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: Ralph Wang, Dannie Liu, Faisal Siddiqui	5,000 shares	1.00%
HTC Malaysia Sdn. Bhd.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Ralph Wang, Faisal Siddiqui, Yeoh Cheng Lee, Abd Malik Bin A. Rahman	25,000 shares	100.00%
HTC Communication Co., Ltd.	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Shen	USD1 27,500 thousands	100.00%
HTC HK, Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Ralph Wang, Abraxas Limited	1,044,375,526 shares	100.00%
HTC Holding Cooperatief U.A.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Shen, Yvonne Theuns	EUR 175,234 thousands	99.99%
	Director	HTC Corporation Representative: Peter Shen, Yvonne Theuns	EUR 0.28 thousands	0.01%
HTC Communication Technologies (SH)	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: David Chen	USD 4,000 thousands	100.00%

(Continued)

2017.12.31 Unit: NT\$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
HTC Myanmar Company Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang, James Chen	99,000 shares	99.00%
	Director	HTC HK Limited Representative: Edward Wang, James Chen	1,000 shares	1.00%
HTC Vietnam Services One Member Limited Liability Company	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Ralph Wang	USD 200 thousands	100.00%
S3 Graphics Co, Ltd.	Director	HTC Investment One (BVI) Corporation Representative: Peter Shen, Marcus Woo	386,338,516 shares	100.00%
Yoda Co., Ltd.	Chairperson	HTC Investment Corporation Representative: Hsiu Lai	20,000 thousands	100.00%
HTC Corporation (Shanghai WGQ)	Executive Director	HTC HK, Limited Representative: Georges Bouloy	USD 1,500 thousands	100.00%
HTC Electronics (Shanghai) Co., Ltd.	Chairperson	HTC HK, Limited Representative: David Chen	USD 132,909 thousands	100.00%
HTC Communication (BJ) Tech Co.	Chairperson	HTC Communication Technologies (Shanghai Limited) Representative: David Chen	RMB 10,500 thousands	100.00%
HTC Netherlands B.V.	Representative	HTC Holding Cooperatief U.A.	143,881,816 shares	100.00%
HTC EUROPE CO. LTD.	Director	HTC Netherlands B.V. Representative: Peter Shen, Marcus Woo	69,270,132 shares	100.00%
HTC BRASIL	Representative	HTC Netherlands B.V.	1,987,399 shares	99.99%
	Representative	HTC Cooperatief U.A.	1 share	0.01%
HTC Belgium BVBA/SPRL	Director	HTC Netherlands B.V. Representative: Gilbert Ng, TMF Management	18,549 shares	100.00%
HTC NIPPON Corporation	Director	HTC Netherlands B.V. Representative: Peter Shen, Kojima Masakatin, Ralph Wang	1,000 shares	100.00%
HTC France Corporation	President	HTC Netherlands B.V. Representative: Graham Wheeler	11,000,000 shares	100.00%
HTC South Eastern Europe Limited Liability Company	Administrator	HTC Netherlands B.V. Representative: Nikitas Glykas	149 shares	99.33%
	Administrator	HTC Holding Cooperatief U.A. Representative: Nikitas Glykas	1 share	0.67%
HTC Nordic ApS	Director	HTC Netherlands B.V. Representative: Graham Wheeler, Ralph Wang	80,000 shares	100.00%
HTC Italia SRL	Director	HTC Netherlands B.V. Representative: (Liquidator) Giovanni Gargani	EUR 10 thousands	100.00%
HTC Germany GmbH	Director	HTC Netherlands B.V. Representative: Graham Wheeler	25,000 shares	100.00%
HTC Iberia S.L.U.	Director	HTC Netherlands B.V. Representative: Graham Wheeler	3,006 shares	100.00%

(Continued)

2017.12.31 Unit: NT\$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
HTC Poland sp z o.o.	Director	HTC Netherlands B.V. Representative: Graham Wheeler, Ralph Wang	4,687 shares	100.00%
HTC Communication Canada, Ltd.	Director	HTC Netherlands B.V. Representative: André Lönne, RalphWang	1,500,000 shares	100.00%
HTC Communication Sweden AB	Director	HTC Netherlands B.V. Representative: Graham Wheeler, Ralph Wang	1,000,000 shares	100.00%
HTC Luxembourg S.a.r.l.	Director	HTC Netherlands B.V. Representative: Ralph Wang	12,500 shares	100.00%
HTC Middle East FZ- LLC	Director	HTC Netherlands B.V. Representative: Crystal Liu, RalphWang	3,500 shares	100.00%
HTC Communication Solutions Mexico, S.A DE CV.	Director	HTC Netherlands B.V. Representative: André Lönne, RalphWang	49,500 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: André Lönne, RalphWang	500 shares	1.00%
HTC Servicios DE Operacion Mexico, S.A DE CV.	Director	HTC Netherlands B.V. Representative: Jason André Lönne, RalphWang	49,500 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: André Lönne, RalphWang	500 shares	1.00%
HTC Czech RC s.r.o.	Director	HTC Netherlands B.V. Representative: Bruce Lee	CZK 25,300 thoudands	100.00%
HTC America Holding, Inc.	Director	HTC EUROPE CO. LTD Representative: Peter Shen	358,617,151 shares	100.00%
HTC America, Inc.	Director	HTC America Holding, Inc. Representative: Peter Shen	1,000 shares	100.00%
One & Company Design, Inc.	Director	HTC America Holding, Inc. Representative: Ralph Wang	60,000 shares	100.00%
HTC America Innovation, Inc.	Director	HTC America Holding, Inc. Representative: Hsiu Lai	1,000 shares	100.00%
HTC America Content Services, Inc.	Director	HTC America Holding, Inc. Representative: Ralph Wang	31,000 shares	100.00%
Dashwire, Inc.	Director	HTC America Holding, Inc. Representative: RalphWang	100 shares	100.00%
Inquisitive Minds, Inc.	Director	HTC America Holding, Inc. Representative: RalphWang	100 shares	100.00%
HTC VIVE TECH (BVI) Corp.	Director	HTC VIVE Holding (BVI) Corp. Representative: Peter Shen, Dannie Liu	70,000,000 shares	100.00%
	Chairperson	HTC VIVE Tech (BVI) Corp. Representative: Peter Shen	100,000 shares	100.00%
	Director	HTC VIVE Tech (BVI) Corp. Representative: Marcus Woo	100,000 shares	100.00%
	Director	HTC VIVE Tech (BVI) Corp. Representative: Dannie Liu	100,000 shares	100.00%
	Supervisor	HTC VIVE Tech (BVI) Corp. Representative: Ralph Wang	100,000 shares	100.00%

(Continued)

2017.12.31 Unit: NT\$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding	
			Shares (Investment Amount)	Investment Holding Percentage
HTC VIVE TECH (HK) Limited	Director	HTC VIVE TECH (BVI) Corp. Representative: Peter Shen, Marcus, Dannie Liu	6,800,000 share	100.00%
HTC VIVE TECH (Beijing) Limited	Director	HTC VIVE TECH (HK) Limited Representative: Dannie Liu	USD 800 thoudands	100.00%
HTC VIVE TECH (UK) Limite	Director	HTC VIVE TECH (HK) Limited. Representative: Peter Shen, Marcus, Dannie Liu	6,000,0000 shares	100.00%
DeepQ (BVI) Corp.	Director	DeepQ Holding (BVI) Corp Representative: Peter Shen, Dannie Liu	39,700,000 shares	100.00%
DeepQ Technology Corp.	Director	DeepQ (BVI) Corp . Representative: Peter Shen, Marcus, Dannie Liu	11,500,000 shares	100.00%
VRChat. Inc.	Director	GAYLOR, GRAHAM BLUM, JOUDREY, JESSE BRIAN FRANK	49,957,549 shares	53.16%
Uomo vitruviano Corp.	Director	HTC VR Content (BVI) Corp. Representative: Peter Shen, Marcus, Dannie Liu	10,000 shares	100.00%
VRChat. Ca. Development Inc	Director	GAYLOR, GRAHAM BLUM, JOUDREY, JESSE BRIAN FRANK	100 shares	100.00%

**(6) Operational highlights of HTC affiliated companies**

Unit: NT\$ thousands

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
Investor:								
HTC Corporation	\$ 8,208,261	\$ 65,026,545	\$ 31,330,969	\$ 33,695,576	\$ 56,266,280	\$ -18,659,437	\$ -16,905,713	\$ -20.58
Investee:								
HTC (BVI) Corp.	3,808,053	2,708,635	13	2,708,622	-	-83,835	-164,072	-0.12
Communication Global Certification Inc.	290,568	431,377	21,302	410,075	238,508	8,657	7,574	0.26
High Tech Computer Asia Pacific Pte. Ltd.	15,159,028	20,330,135	12,137	20,317,998	79,890	-1,491,994	-1,784,366	-2.64
HTC Investment Corporation	300,000	286,927	119	286,808	732	-3,430	-3,555	-0.12
HTC 1 Investment Corporation	295,000	259,494	354	259,140	760	-7,510	-7,626	-0.26
HTC Investment One (BVI) Corporation	9,958,259	2,282,938	1,342	2,281,596	516	-1,123,803	-1,146,076	-3.43
HTC Investment (BVI) Corp.	537,102	953,092	21	953,071	41,254	24,723	44,655	2.48
HTC VIVE Holding (BVI) Corp.	208,873	205,496	-	205,496	-	-13,623	-13,777	-1.97
HTC VIVE Investment (BVI) Corp.	149,195	149,505	-	149,505	-	-	376	0.09
DeepQ Holding (BVI) Corp.	119,356	120,662	-	120,662	-	-595	-661	-0.20
HTC Smartphone (BVI) Corp.	985	942	-	942	-	-	-45	-3.00
HTC VR Content (BVI) Corp.	10,444	10,546	-	10,546	-	-39	-40	-0.23
HTC Tech Computer Corp.(Suzhou)	2,984	105,446	27	105,419	-	-312	1,340	-
HTC (Australia and New Zealand) PTY LTD.	93,026	285,291	70,537	214,754	169,917	8,347	5,769	14.56
HTC Philippines Corporation	5,968	6,284	-	6,284	-	-	-	-
PT. High Tech Computer Indonesia	3,738	30,143	5,015	25,128	563	27	-226	-1.20
HTC (Thailand) Limited	22,876	51,728	5,317	46,411	10,941	521	99	0.01
HTC India Private Limited	2,334	205,962	169,992	35,970	200,065	6,814	-13,906	-27.81
HTC Malaysia Sdn. Bhd.	1,840	24,450	852	23,598	35,534	1,692	-857	-34.28
HTC Communication Co., Ltd.	3,804,473	3,290,731	839,851	2,450,880	1,968,169	-637,278	-1,011,710	-
HTC HK, Limited	3,987,219	7,070,545	9,461	7,061,084	71,126	-448,439	-456,156	-0.44
HTC Holding Cooperatief U.A.	6,249,470	9,810,334	8,967	9,801,367	-	-60,244	-57,994	-
HTC Communication Technologies (SH)	119,356	585,990	163,061	422,929	655,515	44,364	47,877	-
HTC Myarmar Company Limited	2,172	2,165	-	2,165	-	-	-	-
HTC Vietnam Services One Member Limited Liability Company	5,541	12,402	4,215	8,187	27,283	1,427	928	-
S3 Graphics Co, Ltd.	9,190	92,327	-	92,327	425	424	544	-
Yoda Co., Ltd.	20,000	20,894	349	20,545	3,665	-122	36	-
HTC Corporation (Shanghai WGQ)	44,759	131,791	13,030	118,761	86,766	4,132	-2,611	-

(Continued)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
HTC Electronics (Shanghai) Co., Ltd.	\$ 3,965,872	\$ 8,264,091	\$ 1,469,599	\$ 6,794,492	\$ 63,133	\$ -123,494	\$ -453,761	\$ -
HTC Communication (BJ) Tech Co.	48,064	64,603	-12,722	77,325	177,892	11,638	8,668	-
HTC Netherlands B.V.	5,131,346	9,857,088	51,902	9,805,186	16,129	-156,365	-59,193	-0.41
HTC EUROPE CO., LTD.	2,784,179	9,053,483	135,073	8,918,410	999,488	-128,338	-144,809	-2.09
HTC BRASIL	17,899	23,277	4,439	18,838	4,860	244	216	0.11
HTC Belgium BVBA/SPRL	678	27,315	10,195	17,120	51,213	2,402	5,254	283.23
HTC NIPPON Corporation	2,649	779,914	642,234	137,680	1,916,610	20,699	14,636	14,636.00
HTC FRANCE CORPORATION	392,299	56,838	19,739	37,099	57,639	3,011	1,183	0.11
HTC South Eastern Europe Limited Liability Company	160	6,477	1,139	5,338	-	-	-4	-26.67
HTC Nordic ApS.	383	13,809	3,288	10,521	3,633	423	299	3.74
HTC Italia SRL	357	11,239	4,832	6,407	-	-1,581	-18,896	-
HTC Germany GmbH.	892	116,072	7,539	108,533	98,568	11,089	6,683	267.32
HTC Iberia S.L.	107	26,600	362	26,238	8,798	413	305	101.67
HTC Poland sp. z o.o.	1,998	7,656	3,955	3,701	33,939	1,609	237	50.43
HTC Communication Canada, Ltd.	44,759	72,058	2,465	69,593	912	43	641	0.43
HTC Communication Sweden AB	3,618	6,814	973	5,841	6,100	291	327	0.33
HTC Luxembourg Sa.r.l.	446	19,738	2,773	16,965	-	-1,296	-27,363	-2189.04
HTC Middle East FZ-LLC	28,430	99,189	49,101	50,088	273,187	4,509	5,196	1,484.57
HTC Communication Solutions Mexico, S.A DE C.V.	76	31,572	25,950	5,622	60,936	2,061	1,978	39.56
HTC Servicios DE Operation Mexico, SA DE C.V.	76	18,044	13,715	4,329	50,809	1,239	919	18.38
HTC Czech RC s.r.o.	34,445	34,909	1,194	33,715	-1,149	-1,149	-1,740	-
HTC America Holding Inc.	7,344,154	8,074,965	4,044	8,070,921	-	-178,697	-178,999	-0.49
HTC America Inc.	5,012,952	8,364,780	1,055,182	7,309,598	24,388,223	153,990	80,486	80,486.00
One & Company Design, Inc.	1,074	3,678	63	3,615	-	-	-	-
HTC America Innovation Inc.	89,517	533,506	82,470	451,036	611,611	29,079	17,871	17,871.00
HTC America Content Services, Inc.	390,891	328,571	157,625	170,946	123,557	-268,172	-272,197	-8,780.55
Dashwire, Inc.	0,003	2,341	55,745	-53,404	-	-349	-357	-3,570.00
Inquisitive Minds, Inc.	0,030	40,481	3,860	36,621	2,328	-3,150	-3,213	-321,300.00
HTC VIVE TECH BVI Corp.	208,873	205,496	-	205,496	-	-13,546	-13,777	-0.20
HTC VIVE TECH Corp.	1,000	792	-	792	-	-95	-95	-0.95
HTC VIVE TECH HK) Limited	202,905	203,198	-	203,198	-	-	-10,301	-2.58
HTC VIVE TECH Beijing) Limited	23,871	25,934	2,235	23,699	-	-3,447	-3,781	-
HTC VIVE TECH UK) Limited	179,034	179,488	-	179,488	-	-	-9,827	-2.79
DeepQ BVI Corp.	118,461	119,827	-	119,827	-	-527	-600	-0.02
DeepQ Technology Corp.	115,000	114,540	72	114,468	-	-538	-532	-0.01

(Continued)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
VRChat, Inc.	140,780	63,092	-	63,092	-	-24,889	-45,869	-2.20
Uomo vitruviano Corp.	10,000	9,960	-	9,960	-	-40	-40	-0.14
VRChat, Ca. Development Inc.	20,035	1,499	-	1,499	-	-5,791	-5,861	-

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

• **Consolidated financial statements of HTC affiliated companies**

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

• **Affiliates report**

There were no circumstances requiring preparation of an Affiliates Report.

**2. Private Placement Securities in 2017 and as of the Date of This Annual Report:**

None.

**3. Status of HTC Common Shares and GDRS Acquired, Disposed of, and Held By Subsidiaries in 2017 as of the Date of This Annual Report:**

None.

**4. Any Events in 2017 as of the Date of This Annual Report: That Had Significant Impacts on Shareholders’ Right or Security Prices as Stated in Item 2 Paragraph 3 of Article 36 of Securities and Exchange Law of Taiwan:**

The company’s Board of Director meeting has approved to execute a Business Cooperation Agreement with Google on 21 September, 2017. Google and HTC reached a definitive agreement under which certain HTC employees – many of whom are already working with Google to develop Pixel smartphones – will join Google. HTC will receive US\$1.1 Billion in cash from Google as part of the transaction. Separately, Google will receive a non-exclusive license for HTC intellectual property (IP).

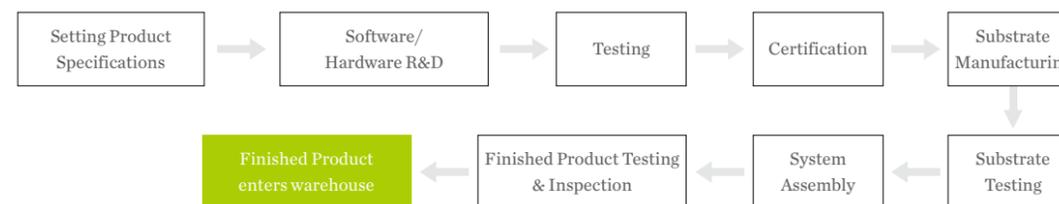
**5. Other Necessary Supplement:**

**(1) Key functionalities and manufacturing processes for primary product lines:**

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

Communication speed has evolved to mature 4G (LTE Long Term Evolution) and the evolution toward wireless broadband and the increase of wireless bandwidth. Going forward the VR system devices will adopt the application of wireless technology in order to satisfy customers’ various needs through faster speed.

The workflow for handheld devices, connected devices, and virtual reality system, from R&D through production, is as follows:



**(2) The supply of major materials:**

Major Material	Supplier
CPU Chipsets	Qualcomm, MTK
Logic IC	TI, NXP
PCB	Unimicron, Unitech, Compeq
Connector	Panasonic, Hirose, Molex
Memory	Hynix , Samsung , Micron , SanDisk
LCD	JDI / Samsung / LGD/ Tianma / Truly

**(3) Environmental protection expenditures**

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

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

HTC is certified OHSAS18001:2007 occupational health and safety management system, ISO 14001:2004 environmental management, and decide to proceed ISO14001:2015 the revision of environmental management procedure in 2018, ISO 14064-1:2006 greenhouse gas emission standards and ISO50001:2011 energy management standard. Certification-mandated procedures and requirements further reduce HTC pollution emissions and energy consumption and move us forward toward clean production objectives.

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

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

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

- a. Continue to strengthen the operations management on environmental protection equipment in order to comply with government regulations and reduce non-compliant incidents;
- b. In addition to regular management of disposables, our policy for reduction of these disposables is carried out through categorization and education in order to reduce production of the disposables from their source. Meanwhile, reusability received priority in consideration and further categorization on the rear end is added to increase the reusability of recycled resources.

- c. Continue promoting ISO 14001 environmental management, ISO 14064-1 GHG emission inventory and ISO50001 energy management system to maximize clean production benefits through technical and administrative measures.
- d. Major planned environmental expenditures over the next 2 years include:

Unit: NT\$ thousands

Item	Fiscal Year	Anticipated Equipment Purchases / Expenditures	Anticipated Benefits	Expenditures (estimated)
2018		1. Energy efficient lighting system	1. Reduce energy consumption by using motion sensing lighting system	5,420
		2. Water conservation facilities in pantry, shower rooms and toilets	2. Deploy efficient water saving utilities in pantry, shower rooms and toilets	
		3. Water/power conservation promotion activities	3. Conserve water resource	
		4. Implementation of energy efficient air conditioning equipments	4. Reduce energy consumption through the inverters ,temperature and time controller set-up	
		5. Waste water facilities	5. Reinforce waste system.	
2019		1. Energy efficient lighting system, Two-line lighting control system and Rope switch to control lighting system respectively.	1. Using LED power-saving lamps helps reduce energy waste, and using Two-line lighting control system as well the light-sensing switches with rope switches for personal lighting equipment effectively saves from power consumption	5,470
		2. Setup for water conservation devices.	2. Deploy efficient water saving utilities in pantry, shower rooms and toilets	
		3. Implementation of energy efficient air conditioning equipment	3. Reduce energy consumption through the inverters, temperature and time controller set-up	
		4. Installation of inverters to air compressors and motor pumps.	4. Adding inverters in air compressors, and motor pumps helps save energy	
		5. Waste water recyclin to provide for campus watering system	5. Promote waste water recycling, and reduce tap water useage	
		6. Water / power conservation promotion activities	6. Conserve water resources	
		7. Waste reduction and recycling promotion activities	7. Reduce waste by promoting waste reduction and recycling	
		8. Campus greening efforts	8. Reduce energy consumption through campus greenification	
2020		1. Implementation of energy-saving light fixtures, 2-way time-controlled light fixtures and energy-saving sensors for lighting.	1. Use of energy-saving light fixtures like LEDs to achieve reduction of energy waste and effective saving of power through 2-way time controlled, light-sensitive switches.	5,100
		2. Introduction of energy-saving air conditioning facilities.	2. Air conditioning systems fitted with inverters to save energy.	
		3. Air compressors and motor pumps fitted with inverters.	3. Air compressors and motor pumps fitted with inverters to save energy.	
		4. Waste water retreatment for landscape irrigation within the campus.	4. Waste water treatment and then used for landscape irrigation to reduce use of tap water.	
		5. Advocating and promotion of water-saving and energy-saving activities.	5. Advocating kitchens and dorms to reach target of water saving through water saving management measures.	
		6. Advocating of garbage classification and resource reuse activities.	6. Advocating and strengthening resource recycling and reuse to reduce environmental pollution from garbage.	
		7. Greening of campus landscape.	7. Campus landscape greening to fight warming and achieve the effect of energy saving.	

### 3. Environmental protection and employee health & safety measures

#### Environmental protection:

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

Through green purchases followed by acquisition of raw materials or energy-efficient equipment, savings on use of energy and resources, as well as decrease in pollution on the environment, are made possible for fulfilling duties, such as reducing volume of the disposables, reusing recycled materials, and reducing the volume of carbon, for protection of the environment.

HTC is committed to environmental responsibility and monitors its greenhouse gas sources and emissions in compliance with ISO 14064-1 standards. HTC also follows ISO 50001 energy management standards to promote effective energy management, and to achieve long-run sustainability and competitiveness.

#### Associated procedures include:

- a. Set up energy conservation strategy through monitoring the energy usage and GHG emission;
- b. Recertification of greenhouse gas records conducted by licensed, independent certification agency annually (certificate issued);
- c. Voluntarily release annual greenhouse gas emissions data to the public through international non-profit organizations, CDP.

#### Employee safety and health:

In accordance with contents of the plan for management of occupational safety and health, the company will comply with occupational safety and health regulations by identifying hazards in order to carry out key tasks such as reducing risks, specifying a standard for management of dangerous and hazardous materials, offering guidance about occupational safety and health, and promoting vendor management. All of these tasks will be implemented into "management on occupational safety and health", "education and training on occupational safety and health", "standard operating procedures and analysis for work safety", "inspections on occupational safety and health", "emergency response", "Health management & improvement", and "activities on occupational safety and health" in order to achieve engagement by all parties for a reduced risk on occupational safety and health. HTC is certified under OHSAS18001. New employees receive safety and health education training related to HTC's working environment and production processes. HTC also holds regular fire safety drills to ensure all employees are familiar with fire prevention facilities, equipment and evacuation route.

Employees are the most valuable assets for HTC. To safeguard the health of our employees, the task of our health center works toward "health management", "health promotion", "occupational health care", and "employee assistive programs(EAP)" for our employees, in a hope that this employee clinic (an affiliated medical room at HTC) would offer services such as ensured doctor visits, prescriptions, health

consultation, physical therapy, for our employees. For employees with mid-to-high level risk of health issues after recent health check-ups, the center will arrange treatment and follow-ups from doctors and nursing staffs at the center.

Assistance will be offered with necessary courses on health, accurate information on health management, and development of living habits for individual employees in order to foster the ability of self-management on health for those employees and realize a complete health care system.

#### Green product research and development

Complying with each region's related regulation and client's request, HTC prepares budgets for our products to go through green production certification, such as toxic-free substances testing and energy efficiency certification.

During the stage of product design and development, materials with lower environmental risk were carefully selected based on the precautionary principle to make sure it met worldwide regulations for forbidden materials. We are also taking the initiatives in finding ways to reduce use of materials that are harmful to the environment. Through a concept of design based on increase of recycling rate, reusability of resources would be enhanced for a reduced impact on the working environment.

## (4) Labor relations management

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

### 1. Employee recruitment

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

## 2. Employee development

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

Personnel talent is HTC's most precious assets. It is also HTC's long-term commitment to every employee. In 2017, total training related expenditure were NT\$5.84 million and training hours were 155,188 hours.

## 3. Employee benefits and employee satisfaction

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

### Comprehensive employee benefits

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

### Open and responsive lines of communication

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

### Regular activities and events

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

### Employee awards

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

## 4. Employee retention

### Specialist Retention Plan:

Incentives are offered to employees with special and critical skills to keep them with the company and ensure they benefit from the results of their efforts.

### Long service awards:

Awards are presented at a company-wide ceremony that recognizes employees who have provided with 5-year, 10-year, 15-year and 20-year of services.

### Internal transfer assistance:

In order to help enhance employees' professional experience and career planning, HTC provides assistance to facilitate employee transfers within the company.

## 5. Compensation and retirement benefits

HTC employees earn market-competitive salaries that take into consideration academic background, work experience, seniority and current professional responsibilities / position level. The amount of annual employee performance bonuses is proposed by the president and approved by the board of directors based on current year business performance. Additionally, HTC appropriate a percentage of annual earnings bonuses to employee approved by the board of directors and adopted by shareholders' meeting. Performance and earnings bonus are allocated based on work performance and relative level of contribution in order to motivate employees effectively.

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

## 6. Labor negotiations and measures to protect employee rights

HTC is committed to fostering an atmosphere of trust in its labor relations and places great importance on internal communications. Labor relations meetings are convened once every two months (at least 6 regular meetings per year), with labor represented by seven elected employee representatives.

Meeting minutes are kept to ensure follow-on action and track results. HTC further offers employees various channels through which to submit opinions, suggestions and complaints, which may be delivered via a telephone hotline, e-mail address or physical mail as well as made known through HTC's regular employee opinion surveys. During the most recent fiscal year and as of the printing date of this annual report, labor relations management have been harmonious with no losses resulting from labor-management conflicts; and no loss of this type is expected in the future.



# **FINANCIAL INFORMATION**



# FINANCIAL INFORMATION

## 1. Abbreviated Balance Sheets for the Past Five Fiscal Years

### (1) Abbreviated Balance Sheets - IFRS

Unit: NT\$ thousands

Item	Year					
	2017	2016	2015	2014	2013	
Current Assets	15,795,358	41,119,540	58,086,219	85,050,267	86,792,110	
Properties	9,742,069	10,501,997	13,152,866	18,660,108	19,773,608	
Intangible Assets	72,384	309,321	622,138	1,222,721	1,650,891	
Other Assets	39,416,734	50,679,456	55,613,798	58,079,118	59,337,585	
Total Assets	65,026,545	102,610,314	127,475,021	163,012,214	167,554,194	
Current Liabilities	Before Appropriation	31,295,988	50,831,122	62,664,620	82,556,301	89,731,340
	After Appropriation	*	50,831,122	62,664,620	82,870,937	89,731,340
Non-current Liabilities	34,981	7,686	18,306	122,540	115,194	
Total Liabilities	Before Appropriation	31,330,969	50,838,808	62,682,926	82,678,841	89,846,534
	After Appropriation	*	50,838,808	62,682,926	82,993,477	89,846,534
Capital Stock	8,208,261	8,220,087	8,318,695	8,349,521	8,423,505	
Capital Surplus	15,551,491	15,614,641	15,505,853	15,140,687	15,360,307	
Retained Earnings	Before Appropriation	12,204,252	29,139,080	40,080,087	59,531,103	66,286,308
	After Appropriation	*	29,139,080	40,080,087	59,216,467	66,286,308
Other Equity	( 2,268,428)	( 1,202,302)	1,088,415	1,062,118	557,698	
Treasury Stock	-	-	( 200,955)	( 3,750,056)	( 12,920,158)	
Total Stockholders' Equity	Before Appropriation	33,695,576	51,771,506	64,792,095	80,333,373	77,707,660
	After Appropriation	*	51,771,506	64,792,095	80,018,737	77,707,660

\* Subject to change after shareholders' meeting resolution

### (2) Abbreviated Consolidated Balance Sheets - IFRS

Unit: NT\$ thousands

Item	Year					As of	
	2017	2016	2015	2014	2013	2018.03.31	
Current Assets	38,489,385	68,562,382	86,439,402	110,286,950	111,507,281	60,738,251	
Properties	10,798,613	12,025,496	15,432,130	23,435,556	25,561,399	8,430,444	
Intangible Assets	2,315,441	3,878,356	5,561,444	7,209,291	8,664,066	1,960,883	
Other Assets	14,981,967	18,682,948	21,960,107	22,906,477	26,896,441	11,941,872	
Total Assets	66,585,406	103,149,182	129,393,083	163,838,274	172,629,187	83,071,450	
Current Liabilities	Before Appropriation	32,807,450	51,274,276	64,473,478	83,258,739	94,513,990	28,252,390
	After Appropriation	*	51,274,276	64,473,478	83,573,375	94,513,990	*
Non-Current Liabilities	52,828	103,400	127,510	246,162	407,537	183,164	
Total Liabilities	Before Appropriation	32,860,278	51,377,676	64,600,988	83,504,901	94,921,527	28,435,554
	After Appropriation	*	51,377,676	64,600,988	83,819,537	94,921,527	*
Capital Stock	8,208,261	8,220,087	8,318,695	8,349,521	8,423,505	8,209,589	
Capital Surplus	15,551,491	15,614,641	15,505,853	15,140,687	15,360,307	15,558,554	
Retained Earnings	Before Appropriation	12,204,252	29,139,080	40,080,087	59,531,103	66,286,308	33,405,176
	After Appropriation	*	29,139,080	40,080,087	59,216,467	66,286,308	*
Other Equity	( 2,268,428)	( 1,202,302)	1,088,415	1,062,118	557,698	( 2,559,628)	
Treasury Stock	-	-	( 200,955)	( 3,750,056)	( 12,920,158)	-	
Non-Controlling Interest	29,552	-	-	-	-	22,205	
Total Stockholders' Equity	Before Appropriation	33,725,128	51,771,506	64,792,095	80,333,373	77,707,660	54,635,896
	After Appropriation	*	51,771,506	64,792,095	80,018,737	77,707,660	*

\* Subject to change after shareholders' meeting resolution

## 2. Abbreviated Income Statements for the Past Five Fiscal Years

### (1) Abbreviated Income Statement – IFRS

Unit: NT\$ thousands

Item	Year				
	2017	2016	2015	2014	2013
Revenues	59,333,893	74,228,118	117,083,037	174,793,564	194,294,044
Gross Profit	( 568,623)	7,368,471	16,250,255	31,264,301	33,969,488
Operating (Loss) Income	( 15,591,825)	( 11,462,190)	( 13,625,809)	481,485	( 1,636,453)
Non-operating Income and Expenses	( 1,865,626)	369,761	( 3,155,735)	1,049,730	351,246
Net (Loss) Income Before Tax	( 17,457,451)	( 11,092,429)	( 16,781,544)	1,531,215	( 1,285,207)
Net (Loss) Income from Continuing Operations	( 16,905,713)	( 10,560,103)	( 15,533,068)	1,483,046	( 1,323,785)
Non-Continuing Operations Loss	-	-	-	-	-
Net (Loss) Income	( 16,905,713)	( 10,560,103)	( 15,533,068)	1,483,046	( 1,323,785)
Other Comprehensive Income and Loss For The Year –Net of Income Tax	( 1,299,573)	( 2,455,613)	( 43,307)	873,654	1,428,310
Total Comprehensive (Loss) Income For The Year	( 18,205,286)	( 13,015,716)	( 15,576,375)	2,356,700	104,525
Basic (Loss) Earnings Per Share	( 20.58)	( 12.81)	( 18.79)	1.80	( 1.60)

### (2) Abbreviated Consolidated Statements of Comprehensive income– IFRS

Unit: NT\$ thousands

Item	Year					As of
	2017	2016	2015	2014	2013	2018.03.31
Revenue	62,119,814	78,161,158	121,684,231	187,911,200	203,402,648	8,788,743
Gross Profit	1,339,692	9,434,591	21,953,107	40,755,095	42,270,753	( 274,872)
Operating (Loss) Income	( 17,425,517)	( 14,608,064)	( 14,203,146)	668,770	( 3,970,522)	( 5,178,964)
Non-operating Income and Expenses	466,682	4,024,116	( 1,378,394)	1,314,656	3,774,878	31,573,744
Net (Loss) Income Before Tax	( 16,958,835)	( 10,583,948)	( 15,581,540)	1,983,426	( 195,644)	26,394,780
Net (Loss) Income from Continuing Operations	( 16,920,359)	( 10,560,103)	( 15,533,068)	1,483,046	( 1,323,785)	21,089,564
Non-Continuing Operations Loss	-	-	-	-	-	-
Net (Loss) Income	( 16,920,359)	( 10,560,103)	( 15,533,068)	1,483,046	( 1,323,785)	21,089,564
Other Comprehensive Income and Loss for the Period, Net of Income Tax	( 1,299,051)	( 2,455,613)	( 43,307)	873,654	1,428,310	( 164,872)
Total Comprehensive (Loss) Income for the Period	( 18,219,410)	( 13,015,716)	( 15,576,375)	2,356,700	104,525	20,924,692
Allocations of Profit or Loss for the Period Attributable to: Owners of the Parent	( 16,905,713)	( 10,560,103)	( 15,533,068)	1,483,046	( 1,323,785)	21,096,192
Allocations of Profit or Loss for the Period Attributable to: Non-controlling Interest	( 14,646)	-	-	-	-	( 6,628)
Allocations of Total Comprehensive Income for the Period Attributable to: Owners of the Parent	( 18,205,286)	( 13,015,716)	( 15,576,375)	2,356,700	104,525	20,932,039
Allocations of Total Comprehensive Income for the Period Attributable to: Non-controlling Interest	( 14,124)	-	-	-	-	( 7,347)
Basic Earnings (Loss) Per Share	( 20.58)	( 12.81)	( 18.79)	1.80	( 1.60)	25.70
Fully Diluted Earnings (Loss) Per Share	( 20.58)	( 12.81)	( 18.79)	1.80	( 1.60)	25.31

### (3) The Name of the Certified Public Accountant and the Auditor's Opinion

Year	CPA Firm	Certified Public Accountant	Auditor's Opinion
2013	Deloitte & Touche	Ming-Hsien Yang and Wen-Yea Shyu	Unqualified Opinion
2014	Deloitte & Touche	Wen-Yea Shyu and Kwan-Chung Lai	Unqualified Opinion
2015	Deloitte & Touche	Wen-Yea Shyu and Kwan-Chung Lai	Unqualified Opinion
2016	Deloitte & Touche	Wen-Yea Shyu and Kwan-Chung Lai	Unqualified Opinion
2017	Deloitte & Touche	Wen-Yea Shyu and Kwan-Chung Lai	Unqualified Opinion

### 3. Financial Analysis for the Past Five Fiscal Years

#### (1) Financial Analysis – IFRS

Item	Year					
	2017	2016	2015	2014	2013	
Capital Structure Analysis	Debt Ratio (%)	48	50	49	51	54
	Long-term Fund to Fixed Assets Ratio (%)	346	493	493	431	393
Liquidity Analysis	Current Ratio (%)	50	81	93	103	97
	Quick Ratio (%)	26	54	62	80	72
	Debt Services Coverage Ratio (%)	( 558)	( 2,150)	( 2,145)	94	( 195)
Operating Performance Analysis	Average Collection Turnover(Times)	7.81	5.04	4.81	5.65	5.43
	Days Sales Outstanding	47	72	76	65	67
	Average Inventory Turnover ( Times)	4.39	3.86	5.68	7.66	7.12
	Average Payment Turnover ( Times)	2.74	2.28	2.61	3.65	2.62
	Average Inventory Turnover Days	83	95	64	48	51
	Fixed Assets Turnover (Times)	5.86	6.28	7.36	9.10	9.84
	Total Assets Turnover (Times)	0.71	0.65	0.81	1.06	1.07
Profitability Analysis	Return on Total Assets (%)	( 20.13)	( 9.18)	( 10.69)	0.90	( 0.72)
	Return on Equity (%)	( 39.56)	( 18.12)	( 21.41)	1.88	( 1.68)
	Ratio of income before tax to paid-in capital (%)	( 212.68)	( 134.94)	( 202)	18.34	( 15.26)
	Net Margin (%)	( 28.49)	( 14.23)	( 13.27)	0.85	( 0.68)
	Basic Earnings Per Share (NT\$)	( 20.58)	( 12.81)	( 18.79)	1.80	( 1.60)
Cash Flow	Cash Flow Ratio (%)	( 54.61)	( 24.22)	( 20.87)	0.72	( 14.76)
	Cash Flow Adequacy Ratio (%)	( 567.1)	( 31.85)	94.56	110.33	113.13
	Cash Flow Reinvestment Ratio (%)	( 38.73)	( 19.80)	( 17.81)	0.65	( 17.28)
Leverage	Operating Leverage	0.06	( 0.37)	( 0.71)	37.00	( 5.87)
	Financial Leverage	1	1	1	1	1

#### 1. Capital Structure & Liquidity Analyses

HTC had continued loss during 2017, which led to net cash outflow in operating activities and resulted in drops of quick ratio and current ratio. Furthermore as the industry environment was still highly competitive, operating revenue continued to drop. As such accounts payable related to purchases and operating expenses at the end of the period as well as assets were reduced proportionally, leading to no major changes in debt ratio. There were no major changes in real properties, plants and equipment, but the loss led to reduction of long-term funds, making the long term fund to real properties, plants and equipment ratio to drop behind 2016.

#### 2. Operating Performance Analysis

In 2017, as the industry environment was still highly competitive and easily substitutability for that led to lower revenue. The management through improving turnover ratio in accounts receivable, accounts payable, and inventory to increase the operating funds flexibility.

#### 3. Profitability Analysis

Due to fierce competition in the international market in 2017, HTC continued loss and profitability dropped overall compared to 2016.

#### 4. Cash Flow Analysis

HTC continuously suffered loss with net cash outflow and decreased asset & liability overall in 2017, so that cash flow ratios all decrease behind 2016.

## (2) Consolidated Financial Analysis - IFRS

Item	Year					As of 2018. 03.31	
	2017	2016	2015	2014	2013		
Capital Structure Analysis	Debt Ratio (%)	49	50	50	51	55	34
	Long-term Fund to Fixed Assets Ratio (%)	313	431	420	343	304	650
Liquidity Analysis	Current Ratio (%)	117	134	134	132	118	215
	Quick Ratio (%)	84	103	98	104	87	183
	Debt Services Coverage Ratio (%)	( 508)	( 1,997)	( 1,917)	118	( 22)	26,394,781
Operating Performance Analysis	Average Collection Turnover (Times)	4.80	4.07	4.53	6.41	5.83	4.84
	Days Sales Outstanding	76	90	81	57	63	75
	Average Inventory Turnover (Times)	4.10	3.48	4.80	6.34	5.81	3.40
	Average Payment Turnover (Times)	2.98	2.46	2.72	3.27	2.69	2.79
	Average Inventory Turnover Days	89	105	76	58	63	107
	Fixed Assets Turnover (Times)	5.44	5.69	6.26	7.67	7.89	3.66
	Total Assets Turnover (Times)	0.73	0.67	0.83	1.12	1.07	0.47
	Return on Total Assets (%)	( 19.90)	( 9.08)	( 10.59)	0.88	( 0.69)	28.18
Profitability Analysis	Return on Equity (%)	( 39.60)	( 18.12)	( 21.41)	1.88	( 1.68)	47.76
	Ratio of income before tax to paid-in capital (%)	( 206.61)	( 128.76)	( 187.31)	23.75	( 2.32)	321.51
	Net Margin (%)	( 27.24)	( 13.51)	( 12.77)	0.79	( 0.65)	239.96
	Basic Earnings Per Share (NT\$)	( 20.58)	( 12.81)	( 18.79)	1.80	( 1.60)	25.70
	Cash Flow Ratio (%)	( 57.94)	( 18.76)	( 20.24)	( 0.41)	( 17.17)	( 14.31)
Cash Flow	Cash Flow Adequacy Ratio (%)	( 480.86)	( 30.23)	88.82	105.69	109.71	( 617.10)
	Cash Flow Reinvestment Ratio (%)	( 38.56)	( 14.49)	( 16.91)	( 0.36)	( 19.78)	( 6.03)
Leverage	Operating Leverage	0.06	( 0.37)	( 0.71)	37.00	( 5.87)	0.19
	Financial Leverage	1	1	1	1	1	1

### 1. Capital Structure & Liquidity Analyses

HTC had continued loss during 2017, which led to net cash outflow in operating activities and resulted in drops of quick ratio and current ratio. Furthermore as the industry environment was still highly competitive, operating revenue continued to drop. As such accounts payable related to purchases and operating expenses at the end of the period as well as assets were reduced proportionally, leading to no major changes in debt ratio. There were no major changes in real properties, plants and equipment, but the loss led to reduction of long-term funds, making the long term fund to real properties, plants and equipment ratio to drop behind 2016.

### 2. Operating Performance Analysis

In 2017, as the industry environment was still highly competitive and easily substitutability for that led to lower revenue. The management through improving turnover ratio in accounts receivable, accounts payable, and inventory to increase the operating funds flexibility.

### 3. Profitability Analysis

Due to fierce competition in the international market in 2017, HTC continued loss and profitability dropped overall compared to 2016.

### 4. Cash Flow Analysis

HTC continuously suffered loss with net cash outflow and decreased asset & liability overall in 2017, so that cash flow ratios all decrease behind 2016.

## 4. 2017 Supervisors' Report

### HTC CORPORATION SUPERVISORS AUDIT REPORT

The Board of Directors has prepared the Company's 2017 Business Report, Financial Statements and Deficit Compensation Proposal. HTC Corporation's Financial Statements have been audited and certified by Hsu, Wen-Ya, CPA, and Lai Guan-Jhong, CPA, of Deloitte & Touche and an audit report relating to the Financial Statements has been issued. The Business Report, Financial Statements and Deficit Compensation Proposal have been reviewed and considered to be complied with relevant rules by the undersigned, the supervisor of HTC Corporation. According to Article 219 of the Company Law, I hereby submit this report.

HTC CORPORATION

Supervisor:

Huang-Chieh Chu



Supervisor:

Way-Chih Investment Co., Ltd.

Representative:

Shao-Lun Lee



March 30, 2018

## 5. Independent Auditors' Report

### The Board of Directors and Stockholders HTC Corporation

#### Opinion

We have audited the accompanying parent company only financial statements of HTC Corporation (the Company), which comprise the parent company only balance sheets as of December 31, 2017 and 2016, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

#### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in Taiwan, the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of Taiwan, the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of the parent company only financial statements for the year ended December 31, 2017 are as follows:

#### Allowances for Doubtful Accounts

As of December 31, 2017, the balance of allowances for doubtful accounts amounted to NT\$2,349,999 thousand.

The allowance for doubtful accounts was arrived at by reference to the aging of receivables and credit risk assessment of customers. The Company has only one major customer. All the other customers are located in areas with varied economic situations; thus, the credit risk are also varied. The Company's use of judgment in evaluating the adequacy of allowance for doubtful accounts and the large amount of trade receivables make the evaluation of allowance for doubtful accounts a key audit matter.

We obtained an understanding of the accounting policy on the evaluation of allowance for doubtful accounts, including the assessment of credit risk on every customer. We tested the aging schedule prepared by the Company against the supporting documents. We checked compliance with the Company's policy on the evaluation of allowance for doubtful accounts. We compared the allowance for doubtful accounts at the end of the current and prior periods for reasonableness.

For the accounting policy on the evaluation of allowance for doubtful accounts, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Notes 10 and 28.

#### **Valuation of Inventories**

The Company's operations are mainly in the research, manufacture and sale of smart mobile devices, and the balance of inventories amounted to NT\$6,673,385 thousand as of December 31, 2017. Due to the rapid change in technology, the industry is highly competitive; in addition, since the management needs to apply judgment to evaluate the net realizable value of inventories and as the balance of inventories represents a significant portion of the Company's total assets as of December 31, 2017, the valuation of inventories was deemed to be a key audit matter.

We evaluated the accounting policy on the assessment of inventory write-downs. We obtained an understanding of the products and their classifications and marketing plans and we tested the Company's determination of net realizable value.

For the accounting policy on the assessment of inventory write-downs, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Note 11.

#### **Impairment of Property, Plant and Equipment, Prepayments, Intangible Assets and Deferred Tax Assets**

As of December 31, 2017, the carrying amounts of property, plant and equipment, prepayments, intangible assets and deferred tax assets were NT\$9,742,069 thousand, NT\$3,262,353 thousand, NT\$72,384 thousand and NT\$8,867,425 thousand, respectively. The Company operates in a highly competitive environment. From previous periods, the current period operating conditions and earnings deteriorated significantly, indicating potential impairment of the assets. As impairment may be material to the Company's financial statements for

the year ended December 31, 2017, the evaluation of impairment was deemed to be a key audit matter.

The audit procedures performed in respect of the assessment of assets for impairment included the following:

1. We obtained an understanding of the procedures and controls performed by management in assessing the impairment of assets.
2. We evaluated whether the assessment performed by management considered the operating conditions and the industry situation.
3. We evaluated the reasonableness of comparable information, discount rate and recovery rate used in the report of external expert.

For the accounting policy on the impairment of property, plant and equipment, prepayments, intangible assets and deferred tax assets, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Notes 12, 15, 16 and 24.

#### **Revenue Recognition**

According to the accounting policy stated in Note 4, revenue from the sale of goods is recognized when the significant risks and ownership are transferred to the buyers. Considering that receivables from identified customers have become overdue for number of days but trading with the customers continued, and because revenues from such customers have significant influence on the Company's financial statements for the year ended December 31, 2017, the revenue recognition was deemed to be a key audit matter.

We have obtained necessary understanding and have verified the accounting policy and the design and implementation of internal controls with respect to the Company's revenue recognition. We checked compliance with the accounting policy on revenue recognition by reviewing the relevant contracts. For ensuring the Company's compliance with IAS 18, samples from the recognized revenue have been selected to verify if the conditions of revenue recognition were met.

#### **Responsibilities of Management and those Charged with Governance for the Parent Company Only Financial Statements**

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to

cease operations, or has no realistic alternative but to do so.

Those charged with governance, including management and supervisors, are responsible for overseeing the Company's financial reporting process.

### **Auditorss' Responsibilities for the Audit of the Parent Company Only Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in Taiwan, the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

As part of an audit in accordance with the auditing standards generally accepted in Taiwan, the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China  
March 25, 2018

#### Notice to Readers

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

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

HTC CORPORATION  
**PARENT COMPANY ONLY BALANCE SHEETS**  
 DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 5,464,879	8	\$ 15,299,273	15
Financial assets at fair value through profit or loss - current (Notes 7 and 28)	65,199	-	143,642	-
Trade receivables, net (Note 10)	1,247,623	2	4,951,500	5
Trade receivables - related parties, net (Notes 10 and 29)	946,098	2	6,659,174	7
Other receivables (Note 10)	38,413	-	84,714	-
Current tax assets (Note 24)	41,962	-	33,505	-
Inventories (Note 11)	6,673,385	10	12,685,394	12
Prepayments (Notes 12 and 29)	1,035,501	2	1,084,696	1
Other current financial assets (Note 30)	149,195	-	112,943	-
Other current assets	133,103	-	64,699	-
<b>Total current assets</b>	<b>15,795,358</b>	<b>24</b>	<b>41,119,540</b>	<b>40</b>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets - non-current (Note 28)	91	-	86	-
Financial assets measured at cost - non-current (Notes 9 and 28)	510,292	1	515,861	1
Investments accounted for using equity method (Note 14)	27,704,536	43	37,673,892	37
Property, plant and equipment (Notes 15 and 29)	9,742,069	15	10,501,997	10
Intangible assets (Note 16)	72,384	-	309,321	-
Deferred tax assets (Note 24)	8,867,425	14	8,431,842	8
Refundable deposits (Note 28)	87,727	-	1,435,391	1
Net defined benefit asset - non-current (Note 20)	19,811	-	41,588	-
Other non-current assets (Note 12)	2,226,852	3	2,580,796	3
<b>Total non-current assets</b>	<b>49,231,187</b>	<b>76</b>	<b>61,490,774</b>	<b>60</b>
<b>TOTAL</b>	<b>\$ 65,026,545</b>	<b>100</b>	<b>\$ 102,610,314</b>	<b>100</b>

(Continued)

LIABILITIES AND EQUITY	2017		2016	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 28)	\$ 75,184	-	\$ 133,420	-
Note and trade payables (Note 17)	15,050,481	23	26,647,656	26
Trade payable - related parties (Notes 17 and 29)	245,927	1	803,465	1
Other payables (Notes 18 and 29)	11,908,114	18	17,849,265	18
Current tax liabilities (Note 24)	11,306	-	12,202	-
Provisions - current (Note 19)	3,187,020	5	3,065,589	3
Other current liabilities (Note 18)	817,956	1	2,319,525	2
<b>Total current liabilities</b>	<b>31,295,988</b>	<b>48</b>	<b>50,831,122</b>	<b>50</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Note 24)	33,716	-	6,218	-
Guarantee deposits received (Note 28)	1,265	-	1,468	-
<b>Total non-current liabilities</b>	<b>34,981</b>	<b>-</b>	<b>7,686</b>	<b>-</b>
<b>Total liabilities</b>	<b>31,330,969</b>	<b>48</b>	<b>50,838,808</b>	<b>50</b>
<b>EQUITY (Note 21)</b>				
Share capital - ordinary shares	8,208,261	13	8,220,087	8
Capital surplus	15,551,491	24	15,614,641	15
Retained earnings				
Legal reserve	18,297,655	28	18,297,655	18
(Accumulated deficits) unappropriated earnings	(6,093,403)	(9)	10,841,425	10
Other equity	(2,268,428)	(4)	(1,202,302)	(1)
<b>Total equity</b>	<b>33,695,576</b>	<b>52</b>	<b>51,771,506</b>	<b>50</b>
<b>TOTAL</b>	<b>\$ 65,026,545</b>	<b>100</b>	<b>\$ 102,610,314</b>	<b>100</b>

(Concluded)

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

HTC CORPORATION  
**PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME**  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 8, 22 and 29)	\$ 59,333,893	100	\$ 74,228,118	100
OPERATING COSTS (Notes 11, 20, 23 and 29)	59,902,516	101	66,859,647	90
GROSS (LOSS) PROFIT	( 568,623)	( 1)	7,368,471	10
UNREALIZED GAINS	( 194,475)	-	( 688,022)	( 1)
REALIZED GAINS	688,022	1	1,178,011	2
REALIZED GROSS (LOSS) PROFIT	( 75,076)	-	7,858,460	11
OPERATING EXPENSES (Notes 20, 23 and 29)				
Selling and marketing	3,361,768	6	6,289,362	9
General and administrative	2,688,454	5	3,040,714	4
Research and development	9,466,527	16	9,990,574	13
Total operating expenses	15,516,749	27	19,320,650	26
LOSS FROM OPERATIONS	( 15,591,825)	( 27)	( 11,462,190)	( 15)
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 23)	377,293	1	192,955	-
Other gains and losses (Notes 8, 9, 13, 15 and 23)	855,945	1	3,005,805	4
Finance costs	( 31,251)	-	( 5,156)	-
Share of the profit or loss of subsidiaries and joint ventures (Note 14)	( 3,067,613)	( 5)	( 2,823,843)	( 4)
Total non-operating income and expenses	( 1,865,626)	( 3)	369,761	-
LOSS BEFORE INCOME TAX	( 17,457,451)	( 30)	( 11,092,429)	( 15)
INCOME TAX BENEFIT (Note 24)	551,738	1	532,326	1
LOSS FOR THE YEAR	( 16,905,713)	( 29)	( 10,560,103)	( 14)

(Continued)

	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME AND LOSS				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans (Note 20)	\$ ( 32,368)	-	\$ ( 53,143)	-
Share of the profit or loss of subsidiaries - items that will not be reclassified to profit or loss	( 632)	-	( 683)	-
Income tax relating to the components of other comprehensive loss - items that will not be reclassified to profit or loss (Note 24)	3,885	-	6,377	-
	( 29,115)	-	( 47,449)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	( 1,401,850)	( 2)	( 2,254,715)	( 3)
Unrealized gains on available-for-sale financial assets	5	-	11	-
Share of the profit or loss of subsidiaries - items that may be reclassified to profit or loss	131,387	-	( 153,460)	( 1)
	( 1,270,458)	( 2)	( 2,408,164)	( 4)
Other comprehensive loss for the year, net of income tax	( 1,299,573)	( 2)	( 2,455,613)	( 4)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	\$ ( 18,205,286)	( 31)	\$ ( 13,015,716)	( 18)
LOSS PER SHARE (Note 25)				
Basic	\$ ( 20.58)		\$ ( 12.81)	

(Concluded)

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

HTC CORPORATION  
**PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY**  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	Share Capital		Retained Earnings		Other Equity				
	Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for-sale Financial Assets	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 year ended December 31, 2016	-	-	-	( 10,560,103)	-	-	-	-	( 10,560,103)
Other comprehensive income and loss for the year ended December 31, 2016	-	-	-	( 47,449)	( 2,254,715)	( 153,449)	-	-	( 2,455,613)
Buy-back of treasury shares	-	-	-	-	-	-	-	( 436,869)	( 436,869)
Retirement of treasury shares	(111,600)	(192,769)	-	( 333,455)	-	-	-	637,824	-
Share-based payments	12,992	301,557	-	-	-	-	117,447	-	431,996
BALANCE, DECEMBER 31, 2016	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 year ended December 31, 2017	-	-	-	( 16,905,713)	-	-	-	-	( 16,905,713)
Other comprehensive income and loss for the year ended December 31, 2017	-	-	-	( 29,115)	( 1,401,850)	131,392	-	-	( 1,299,573)
Issuance of stock from exercise of employee stock options	100	445	-	-	-	-	-	-	545
Share-based payments	(11,926)	(63,595)	-	-	-	-	204,332	-	128,811
BALANCE, DECEMBER 31, 2017	\$ 8,208,261	\$ 15,551,491	\$ 18,297,655	\$ ( 6,093,403)	\$ ( 2,183,148)	\$ ( 35,690)	\$ ( 49,590)	\$ -	\$ 33,695,576

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

HTC CORPORATION  
**PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS**  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	\$ ( 17,457,451 )	\$ ( 11,092,429 )
Adjustments for:		
Depreciation expense	716,572	1,121,095
Amortization expense	237,503	361,804
Bad debt reversed	( 362,870 )	( 299,951 )
Finance costs	31,251	5,156
Interest income	( 76,579 )	( 121,919 )
Compensation costs of employee share-based payments	129,647	404,461
Share of the profit or loss of subsidiaries and joint ventures	3,067,613	2,823,843
Gain on disposal of property, plant and equipment	-	( 3,199,503 )
Impairment losses on financial assets	5,569	-
Impairment losses on non-financial assets	5,757,281	1,956,188
Unrealized gains on sales	194,475	688,022
Realized gains on sales	( 688,022 )	( 1,178,011 )
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	20,207	48,727
Decrease in trade receivables	4,066,747	1,359,474
Decrease in trade receivables - related parties	5,713,076	1,296,178
Decrease in other receivables	44,682	174,371
Decrease in inventories	453,086	1,192,584
Decrease in prepayments	49,195	2,292,526
Increase in other current assets	( 68,404 )	( 10,208 )
Decrease in other non-current assets	336,098	1,903,888
Decrease in note and trade payables	( 11,597,002 )	( 3,007,062 )
(Decrease) increase in trade payable - related parties	( 557,711 )	418,724
Decrease in other payables	( 5,910,360 )	( 6,217,185 )
Increase (decrease) in provisions	121,431	( 2,386,218 )
Decrease in other current liabilities	( 1,501,569 )	( 698,174 )
Cash used in operations	( 17,275,535 )	( 12,163,619 )
Interest received	78,198	120,334
Interest paid	( 31,251 )	( 5,156 )
Income tax refund (paid)	138,185	( 262,765 )
Net cash used in operating activities	( 17,090,403 )	( 12,311,206 )

(Continued)

	2017	2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of investments accounted for using equity method	\$ -	\$ 182,579
Proceeds from disposal of non-current assets held for sale	-	6,060,000
Payments for property, plant and equipment	( 178,538 )	( 463,690 )
Disposal of property, plant and equipment	-	2,880,172
Increase in refundable deposits	-	( 47,813 )
Decrease in refundable deposits	1,347,664	-
Payments for intangible assets	( 566 )	( 48,987 )
Increase in other current financial assets	( 36,252 )	( 112,943 )
Dividend received	4,421	1,926
Net cash generated from investing activities	1,136,729	8,451,244
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in guarantee deposits received	( 203 )	( 166 )
Proceeds from exercise of employee stock options	545	-
Payments for treasury shares	-	( 436,869 )
Net cash outflow on acquisition of subsidiaries	( 225,632 )	( 1,092,718 )
Capital reduction of subsidiaries	6,344,570	-
Net cash generated from (used in) financing activities	6,119,280	( 1,529,753 )
NET DECREASE IN CASH AND CASH EQUIVALENTS	( 9,834,394 )	( 5,389,715 )
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	15,299,273	20,688,988
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 5,464,879	\$ 15,299,273

(Concluded)

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

## HTC CORPORATION

## NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

**1. ORGANIZATION AND OPERATIONS**

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

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

The parent company only financial statements are presented in the Company's functional currency, New Taiwan dollars.

**2. APPROVAL OF FINANCIAL STATEMENTS**

The parent company only financial statements were approved by the Company's board of directors and authorized for issue on March 25, 2018.

**3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS****a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) 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 did 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, please refer to Note 29.

**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

**1) IFRS 9 "Financial Instruments" Classification, 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:

- 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;
- 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.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss. Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.

Besides this, unlisted shares measured at cost will be measured at fair value instead.

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.

The Company elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets on January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<b>Impact on assets, liabilities and equity</b>			
Financial assets at fair value through profit or loss - current	\$ 65,199	\$ -	\$ 65,199
Financial assets at fair value through other comprehensive income - non-current	-	475,349	475,349
Available-for-sale financial assets - non-current	91	( 91)	-
Financial assets measured at amortized cost - non-current	510,292	( 510,292)	-
Investments accounted for using equity method	2,704,536	<u>4,102</u>	27,708,638
		<u>\$ ( 30,932)</u>	
Accumulated deficits	( 6,093,403)	\$ 104,732	( 5,988,671)
Other equity	( 2,268,428)	<u>( 135,664)</u>	( 2,404,092)
		<u>\$ ( 30,932)</u>	

### 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.

The Company assessed that the application of IFRS 15 would not have material impact on the Company’s

financial position and financial performance except for the above changes of the accounting policies.

### 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. The Company assessed that the application of IFRIC 22 would not have material impact on the Company’s financial position and financial performance.

Except for the above impact, as of the date the parent company only financial statements were authorized for issue, the Company assessed that the application of other standards and interpretations would not have material impact on the Company’s financial position and financial performance.

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

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

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

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

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

**1) IFRS 16 “Leases”**

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the 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 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 parent company only 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**

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

**Basis of Preparation**

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values.

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

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

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries, associates and jointly controlled entities. In order for the amounts of the net

profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries, associates and joint ventures, share of other comprehensive income of subsidiaries, associates and joint ventures and unappropriated earnings (accumulated deficits), as appropriate, in the parent company only financial statements.

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

**Classification of Current and Non-current Assets and Liabilities**

Current assets include:

- a. Assets held primarily for trading purposes;
- b. Assets to be realized within twelve months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities are:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

**Business Combinations**

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests are initially measured either at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets.

**Foreign Currencies**

In preparing the parent company only financial statements, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

- a. Exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to Note 4 “Hedge accounting” section); and
- b. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income

and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting the parent company only financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint venture or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a

foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

### **Inventories**

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

### **Investments in Subsidiaries**

The Company uses the equity method to account for its investments in subsidiaries.

Subsidiaries are the entities controlled by the Company.

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

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

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

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the

carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

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

### **Investments in Joint Ventures**

Joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

When the Company subscribes for additional new shares of the joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the joint venture. The Company

records such a difference as an adjustment to investments accounted for by the equity method, with a corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of a joint venture equals or exceeds its interest in that joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the joint venture), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that joint venture.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be the joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the joint venture

attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the joint venture. The Company accounts for all amounts previously recognized in other comprehensive income in relation to the joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities.

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

### Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

### Goodwill

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

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

A cash-generating unit to which goodwill has been

allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### Intangible Assets

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### Derecognition of intangible assets

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

### Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is

highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

### Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### Financial assets

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

#### a. Measurement category

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

#### 1) Financial assets at fair value through profit or loss (FVTPL)

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

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 28.

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

## 2) Available-for-sales (AFS) financial assets

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

AFS assets are stated at fair value. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency exchange rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial

assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss that previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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

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

## 3) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent, and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

## b. Impairment of financial assets

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

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

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

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

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

For all other financial assets, objective evidence of impairment includes significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization and the disappearance of an active market for that financial asset because of financial difficulties.

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized

in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

## c. Derecognition of financial assets

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

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

### Equity instruments

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

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

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

### **Financial liabilities**

#### **a. Subsequent measurement**

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

#### Financial liabilities at fair value through profit or loss (FVTPL)

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

A financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

- 1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- 2) The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- 3) The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest and dividend paid on the financial liability. Fair value is determined in the manner described in Note 28.

#### **b. Derecognition of financial liabilities**

The difference between the carrying amount

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

### **Derivative financial instruments**

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

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

### **Hedge Accounting**

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

### **Fair value hedges**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting.

### **Cash flow hedges**

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

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

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

### **Provisions**

Provisions, including those arising from contractual obligation specified in service concession arrangement to maintain or restore infrastructure before it is handed over to the grantor, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is

virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **a. Warranty provisions**

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

#### **b. Provisions for contingent loss on purchase orders**

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

### **Revenue Recognition**

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

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

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

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

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

### **Employee Benefits**

#### **Short-term employee benefits**

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

#### **Retirement benefits**

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

#### **Other long-term employee benefits**

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that remeasurement is recognized in profit or loss.

#### **Termination benefits**

A liability for a termination benefit is recognized at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

### **Share-based Payment Arrangements**

#### **Share-based payment transactions of the Company**

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the share options granted vest immediately.

Restricted shares for employees are recognized as an unearned employ's bonus on the date of grant, with a corresponding increase in capital surplus - restricted shares for employees.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options and capital surplus - restricted shares for employees.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### **a. Current tax**

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

#### **b. Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Company's parent company

only financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

#### **c. Current and deferred tax for the year**

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

### **Accrued Marketing Expenses**

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

### **Treasury Share**

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

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

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered 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. For information on the principles of revenue recognition, refer to Note 4 "revenue recognition" section. The related marketing and advertising expenses recognized as reduction of sales amount or as current expenses are estimated on the basis of agreement, past experience and any known factors. The Company reviews the reasonableness of the estimation periodically.

As of December 31, 2017 and 2016, the carrying amounts of accrued marketing and advertising expenses were NT\$5,480,213 thousand and NT\$8,825,162 thousand, respectively.

### b. Allowances for doubtful debts

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

As of December 31, 2017 and 2016, the carrying amounts of allowances for doubtful debts were NT\$2,349,999 thousand and NT\$2,712,869 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.

The Company recognized impairment loss on tangible and intangible assets other than goodwill for NT\$203,927 thousand for the year ended December 31, 2017.

### 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 December 31, 2017 and 2016, the carrying amounts of inventories were NT\$6,673,385 thousand and NT\$12,685,394 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 December 31, 2017 and 2016, the carrying amounts of deferred tax assets were NT\$8,867,425 thousand and NT\$8,431,842 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 December 31, 2017 and 2016, the carrying amounts of warranty provision were NT\$2,605,752 thousand and NT\$2,692,247 thousand, respectively.

## 6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	\$ 1,085	\$ 865
Checking accounts and demand deposits	3,714,959	12,234,852
Time deposits (with original maturities less than three months)	<u>1,748,835</u>	<u>3,063,556</u>
	<u>\$ 5,464,879</u>	<u>\$ 15,299,273</u>

### Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
<b>December 31, 2017</b>					
Foreign exchange contracts	Sell	SGD/USD	2018.01.03	SGD	3,000
Foreign exchange contracts	Sell	JPY/USD	2018.01.10-2018.02.14	JPY	4,100,000
Foreign exchange contracts	Sell	GBP/USD	2018.01.19	GBP	3,000
Foreign exchange contracts	Sell	CAD/USD	2018.01.26	CAD	3,500
Foreign exchange contracts	Sell	EUR/USD	2018.01.10-2018.01.19	EUR	8,000
Foreign exchange contracts	Sell	AUD/USD	2018.02.09	AUD	1,000
Foreign exchange contracts	Buy	RMB/USD	2018.01.12-2018.02.09	RMB	750,648
Foreign exchange contracts	Buy	USD/NTD	2018.01.10-2018.03.14	USD	440,500
Foreign exchange contracts	Buy	JPY/USD	2018.01.19	JPY	2,818,335
Foreign exchange contracts	Buy	EUR/USD	2018.01.19-2018.01.26	EUR	20,000
Foreign exchange contracts	Buy	AUD/USD	2018.02.09	AUD	10,000

(Continued)

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

	December 31	
	2017	2016
Bank balance	0.01%-0.59%	0.01%-0.62%

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
<b>Financial assets held for trading</b>		
Derivatives financial assets (not under hedge accounting)		
Foreign exchange contracts	<u>\$ 65,199</u>	<u>\$ 143,642</u>
<b>Financial liabilities held for trading</b>		
Derivatives financial liabilities (not under hedge accounting)		
Foreign exchange contracts	<u>\$ 75,184</u>	<u>\$ 133,420</u>

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

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
<b>December 31, 2016</b>					
Foreign exchange contracts	Sell	USD/NTD	2017.01.06-2017.01.25	USD	120,000
Foreign exchange contracts	Sell	EUR/USD	2017.01.06	EUR	40,000
Foreign exchange contracts	Sell	JPY/USD	2017.01.06-2017.01.25	JPY	5,085,622
Foreign exchange contracts	Sell	GBP/USD	2017.01.06-2017.01.20	GBP	6,000
Foreign exchange contracts	Buy	RMB/USD	2017.01.06-2017.01.25	RMB	926,817
Foreign exchange contracts	Buy	CAD/USD	2017.01.11-2017.01.25	CAD	5,000
Foreign exchange contracts	Buy	USD/NTD	2017.01.06-2017.02.02	USD	387,500
Foreign exchange contracts	Buy	SGD/USD	2017.01.06-2017.01.25	SGD	252,579
Foreign exchange contracts	Buy	AUD/USD	2017.01.06-2017.01.11	AUD	4,700

(Concluded)

## 8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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.

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

	For the Year Ended December 31	
	2017	2016
Revenues	\$ ( 4,389)	\$ ( 40,299)
Other gains and losses	<u>3,538</u>	<u>2,056</u>
	<u>\$ ( 851)</u>	<u>\$ ( 38,243)</u>

## 9. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2017	2016
Domestic unlisted equity investment	<u>\$ 510,292</u>	<u>\$ 515,861</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$ 510,292</u>	<u>\$ 515,861</u>

Management believed that the above unlisted equity investments held by the Company, whose fair value cannot be reliably measured due to the range of reasonable fair

value estimates was so significant; therefore, they were measured at cost less impairment, if any, at the end of reporting period.

For the year ended December 31, 2017, the Company determined that the recoverable amounts of financial assets measured at cost were less than its carrying amounts, and thus recognized an impairment loss of NT\$5,569 thousand classified as other gains and losses, please refer to Note 23.

## 10. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2017	2016
<b>Trade receivables</b>		
Trade receivables	\$ 1,756,675	\$ 5,823,422
Trade receivables - related parties	946,098	6,659,174
Overdue receivables	1,840,947	1,840,947
Less: Allowances for impairment loss	( 509,052)	( 871,922)
Less: Allowances for impairment loss - overdue receivables	<u>( 1,840,947)</u>	<u>( 1,840,947)</u>
	<u>\$ 2,193,721</u>	<u>\$ 11,610,674</u>
<b>Other receivables</b>		
VAT refund receivables	\$ 365	\$ 68,110
Interest receivables	979	2,598
Others	<u>37,069</u>	<u>14,006</u>
	<u>\$ 38,413</u>	<u>\$ 84,714</u>

### Trade Receivables

The credit period on sales of goods is 30-75 days. No interest is charged on trade receivables before the due date. Thereafter, interest is charged at 1-18% per annum on the outstanding balance, which is considered to be non-controversial, to some of customers. In determining

the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. For customers with low credit risk, the Company has recognized an allowance for doubtful debts of 1-5% against receivables past due beyond 31-90 days and of 5-100% against receivables past due beyond 91 days. For customers with high credit risk, the Company has recognized an allowance for doubtful debts of 10-100% against receivables past due more than 31 days.

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

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

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

### Aging of trade receivables

	December 31	
	2017	2016
1-90 days	\$ 596,220	\$ 2,834,629
91-180 days	-	382,495
Over 181 days	<u>-</u>	<u>-</u>
	<u>\$ 596,220</u>	<u>\$ 3,217,124</u>

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

### Aging of impaired trade receivables

	December 31	
	2017	2016
1-90 days	\$ 87,168	\$ 2,345,202
91-180 days	-	-
Over 181 days	<u>-</u>	<u>-</u>
	<u>\$ 87,168</u>	<u>\$ 2,345,202</u>

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

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

### Movement in the allowances for doubtful debts

	For the Year Ended December 31	
	2017	2016
Balance, beginning of the year	\$ 2,712,869	\$ 3,012,869
Less: Impairment loss reversed	( 362,870)	( 299,951)
Less: Amounts written off as uncollectable	<u>-</u>	<u>( 49)</u>
Balance, end of the year	<u>\$ 2,349,999</u>	<u>\$ 2,712,869</u>

### Other Receivables

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

## 11. INVENTORIES

	December 31	
	2017	2016
Finished goods	\$ 1,151,632	\$ 1,450,159
Work-in-process	119,720	229,819
Semi-finished goods	1,028,621	1,990,132
Raw materials	4,216,459	8,841,729
Inventory in transit	<u>156,953</u>	<u>173,555</u>
	<u>\$ 6,673,385</u>	<u>\$ 12,685,394</u>

The cost of inventories recognized as operation costs for the years ended December 31, 2017 and 2016 included inventory write-downs of NT\$5,558,923 thousand and NT\$1,956,188 thousand, respectively.

## 12. PREPAYMENTS

	December 31	
	2017	2016
Royalty	\$ 2,688,486	\$ 3,171,234
Software and hardware maintenance	150,994	197,281
Service	90,714	77,809
Prepaid equipment	52,539	59,794
Prepayments to suppliers	9,422	17,431
Others	<u>270,198</u>	<u>141,943</u>
	<u>\$ 3,262,353</u>	<u>\$ 3,665,492</u>

(Continued)

	December 31	
	2017	2016
Current	\$ 1,035,501	\$ 1,084,696
Non-current	<u>2,226,852</u>	<u>2,580,796</u>
	<u>\$ 3,262,353</u>	<u>\$ 3,665,492</u>

(Concluded)

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, refer to Note 34.

### 13. NON-CURRENT ASSETS HELD FOR SALE

On December 29, 2015, the Company'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 net gains on the disposal of NT\$2,091,594 thousand, see Note 23 for details.

### 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2017	2016
Investment in subsidiaries	<u>\$ 2,770,536</u>	<u>\$ 3,673,892</u>

#### Investments in Subsidiaries

	December 31	
	2017	2016
<u>Unlisted equity investments</u>		
H.T.C. (B.V.I.) Corp.	\$ 2,708,622	\$ 3,734,361
Communication Global Certification Inc.	410,075	406,654
High Tech Computer Asia Pacific Pte. Ltd.	20,317,998	28,158,252
HTC Investment Corporation	286,808	290,363
PT. High Tech Computer Indonesia	62	62
HTC I Investment Corporation	259,140	266,766

(Continued)

	December 31	
	2017	2016
HTC Holding Cooperatief U.A.	\$ 13	\$ 13
HTC Investment One (BVI) Corporation	2,281,596	3,682,415
HTC Investment (BVI) Corp.	953,071	844,950
HTC VIVE Holding (BVI) Corp.	205,496	225,583
HTC VIVE Investment (BVI) Corp.	149,505	64,473
DeepQ Holding (BVI) Corp.	120,662	-
HTC Smartphone (BVI) Corp.	942	-
HTC VR Content (BVI) Corp.	<u>10,546</u>	<u>-</u>
	<u>\$ 2,770,536</u>	<u>\$ 3,673,892</u>

(Concluded)

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

Name of Subsidiaries	December 31	
	2017	2016
H.T.C. (B.V.I.) Corp.	100.00%	100.00%
Communication Global Certification Inc.	100.00%	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	100.00%	100.00%
HTC Investment Corporation	100.00%	100.00%
PT. High Tech Computer Indonesia	1.00%	1.00%
HTC I Investment Corporation	100.00%	100.00%
HTC Holding Cooperatief U.A.	0.01%	0.01%
HTC Investment One (BVI) Corporation	100.00%	100.00%
HTC Investment (BVI) Corp.	100.00%	100.00%
HTC VIVE Holding (BVI) Corp.	100.00%	100.00%
HTC VIVE Investment (BVI) Corp.	100.00%	100.00%
DeepQ Holding (BVI) Corp.	100.00%	-
HTC Smartphone (BVI) Corp.	100.00%	-
HTC VR Content (BVI) Corp.	100.00%	-

See Note 15 to the consolidated financial statements for the year ended December 31, 2017 for the details of the subsidiaries indirectly held by the Company.

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

U.A. are considered as subsidiaries of the Company.

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

### Investments in Joint Venture

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 Year Ended December 31	
	2017	2016
The Company's share of:		
Loss from continuing operations	\$ -	\$ ( 25,733)
Other comprehensive income	<u>-</u>	<u>-</u>

(Continued)

Movements of property, plant and equipment for the years ended December 31, 2017 and 2016 were as follows:

	2017				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Balance, beginning of the year	\$ 4,546,099	\$ 6,852,835	\$ 9,836,175	\$ 1,295,112	\$ 22,530,221
Additions	-	53,096	75,956	25,950	155,002
Disposals	<u>-</u>	<u>-</u>	<u>( 71,426)</u>	<u>( 8,628)</u>	<u>( 80,054)</u>
Balance, end of the year	<u>4,546,099</u>	<u>6,905,931</u>	<u>9,840,705</u>	<u>1,312,434</u>	<u>22,605,169</u>
<u>Accumulated depreciation</u>					
Balance, beginning of the year	-	1,791,595	8,677,650	1,034,732	11,503,977
Depreciation expenses	-	264,633	369,346	82,593	716,572
Disposals	<u>-</u>	<u>-</u>	<u>( 71,426)</u>	<u>( 8,628)</u>	<u>(80,054)</u>
Balance, end of the year	<u>-</u>	<u>2,056,228</u>	<u>8,975,570</u>	<u>1,108,697</u>	<u>12,140,495</u>
<u>Accumulated impairment</u>					
Balance, beginning of the year	-	-	520,963	3,284	524,247
Impairment losses	<u>-</u>	<u>-</u>	<u>192,596</u>	<u>5,762</u>	<u>198,358</u>
Balance, end of the year	<u>-</u>	<u>-</u>	<u>713,559</u>	<u>9,046</u>	<u>722,605</u>
Net book value, end of the year	<u>\$ 4,546,099</u>	<u>\$ 4,849,703</u>	<u>\$ 151,576</u>	<u>\$ 194,691</u>	<u>\$ 9,742,069</u>

	For the Year Ended December 31	
	2017	2016
Total comprehensive loss for the period	\$ -	\$ ( 25,733)

(Concluded)

Investments in joint ventures accounted for under 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 audited. 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 audited.

### 15. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2017	2016
<u>Carrying amounts</u>		
Land	\$ 4,546,099	\$ 4,546,099
Buildings	4,849,703	5,061,240
Machinery and equipment	151,576	637,562
Other equipment	<u>194,691</u>	<u>257,096</u>
	<u>\$ 9,742,069</u>	<u>\$ 10,501,997</u>

	2016				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<b>Cost</b>					
Balance, beginning of the year	\$ 6,311,135	\$ 6,782,622	\$ 9,703,282	\$ 1,271,227	\$ 24,068,266
Additions	-	271,646	145,914	25,058	442,618
Disposals	( 1,771,623)	-	( 1,921)	-	( 1,773,544)
Reclassification	6,587	( 201,433)	( 11,100)	( 1,173)	( 207,119)
Balance, end of the year	<u>4,546,099</u>	<u>6,852,835</u>	<u>9,836,175</u>	<u>1,295,112</u>	<u>22,530,221</u>
<b>Accumulated depreciation</b>					
Balance, beginning of the year	-	1,532,753	7,954,976	903,424	10,391,153
Depreciation expenses	-	258,842	730,398	131,855	1,121,095
Disposals	-	-	( 1,281)	-	( 1,281)
Reclassification	-	-	( 6,443)	( 547)	( 6,990)
Balance, end of the year	-	<u>1,791,595</u>	<u>8,677,650</u>	<u>1,034,732</u>	<u>11,501,977</u>
<b>Accumulated impairment</b>					
Balance, beginning of the year	-	-	520,963	3,284	524,247
Impairment losses	-	-	-	-	-
Balance, end of the year	-	-	<u>520,963</u>	<u>3,284</u>	<u>524,247</u>
Net book value, end of the year	<u>\$ 4,546,099</u>	<u>\$ 5,061,240</u>	<u>\$ 637,562</u>	<u>\$ 257,096</u>	<u>\$ 10,501,997</u>

In order to reduce the cost and to improve the operational efficiency, the Company has 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. For the years ended December 31, 2017, the Company determined that the carrying amounts of some of equipment were expected to be unrecoverable, and thus recognized an impairment loss of NT\$198,358 thousand classified as other gains and losses. Please refer to Note 23 for details.

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

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

The major component parts of the buildings held by the Company included plants, electro-powering machinery

and engineering systems, etc., which are 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 years ended December 31, 2017 and 2016.

## 16. INTANGIBLE ASSETS

	December 31	
	2017	2016
Carrying amounts		
Patents	\$ 10,309	\$ 17,675
Other intangible assets	<u>62,075</u>	<u>291,646</u>
	<u>\$ 72,384</u>	<u>\$ 309,321</u>

Movements of intangible assets for the years ended December 31, 2017 and 2016 were as follows:

	2017		
	Patents	Other Intangible Assets	Total
<b>Cost</b>			
Balance, beginning of the year	\$ 2,516,290	\$ 1,174,824	\$ 3,691,114
Additions	-	566	566
Eliminations	-	( 7,093)	( 7,093)
Balance, end of the year	<u>2,516,290</u>	<u>1,168,297</u>	<u>3,684,587</u>
<b>Accumulated amortization</b>			
Balance, beginning of the year	2,387,530	883,178	3,270,708
Amortization expenses	7,366	230,137	237,503
Eliminations	-	( 7,093)	( 7,093)
Balance, end of the year	<u>2,394,896</u>	<u>1,106,222</u>	<u>3,501,118</u>
<b>Accumulated impairment</b>			
Balance, beginning of the year	111,085	-	111,085
Impairment losses	-	-	-
Balance, end of the year	<u>111,085</u>	<u>-</u>	<u>111,085</u>
Net book value, end of the year	<u>\$ 10,309</u>	<u>\$ 62,075</u>	<u>\$ 72,384</u>

	2016		
	Patents	Other Intangible Assets	Total
<b>Cost</b>			
Balance, beginning of the year	\$ 2,516,290	\$ 1,125,837	\$ 3,642,127
Additions	-	48,987	48,987
Balance, end of the year	<u>2,516,290</u>	<u>1,174,824</u>	<u>3,691,114</u>
<b>Accumulated amortization</b>			
Balance, beginning of the year	2,274,264	634,640	2,908,904
Amortization expenses	<u>113,266</u>	<u>248,538</u>	<u>361,804</u>
Balance, end of the year	<u>2,387,530</u>	<u>883,178</u>	<u>3,270,708</u>
<b>Accumulated impairment</b>			
Balance, beginning of the year	111,085	-	111,085
Impairment losses	-	-	-
Balance, end of the year	<u>111,085</u>	<u>-</u>	<u>111,085</u>
Net book value, end of the year	<u>\$ 17,675</u>	<u>\$ 291,646</u>	<u>\$ 309,321</u>

## 17. NOTE AND TRADE PAYABLES

	December 31	
	2017	2016
Note payables	\$ 27	\$ 580
Trade payables	15,050,454	26,647,076
Trade payables - related parties	<u>245,927</u>	<u>803,465</u>
	<u>\$15,296,408</u>	<u>\$ 27,451,121</u>

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

## 18. OTHER LIABILITIES

	December 31	
	2017	2016
<b>Other payables</b>		
Accrued expenses	\$ 11,851,511	\$ 17,761,871
Payables for purchase of equipment	<u>56,603</u>	<u>87,394</u>
	<u>\$ 11,908,114</u>	<u>\$ 17,849,265</u>
<b>Other current liabilities</b>		
Advance receipts	\$ 487,514	\$ 1,769,560
Agency receipts	100,638	391,467
Others	<u>229,804</u>	<u>158,498</u>
	<u>\$ 817,956</u>	<u>\$ 2,319,525</u>

**Accrued Expenses**

	December 31	
	2017	2016
Marketing	\$ 5,480,213	\$ 8,825,162
Materials and molding expenses	1,796,104	3,077,416
Services	1,780,144	2,208,772
Salaries and bonuses	1,765,690	1,736,889
Import, export and freight	180,954	648,015
Repairs, maintenance and sundry purchase	76,690	104,090
Others	<u>771,716</u>	<u>1,161,527</u>
	<u>\$ 11,851,511</u>	<u>\$ 17,761,871</u>

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

**19. PROVISIONS**

	December 31	
	2016	2016
Warranty provision	\$ 2,605,752	\$ 2,692,247
Provisions for contingent loss on purchase orders	<u>581,268</u>	<u>373,342</u>
	<u>\$ 3,187,020</u>	<u>\$ 3,065,589</u>

Movement of provisions for the years ended December 31, 2017 and 2016 were as follows:

	2017		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	\$ 2,692,247	\$ 373,342	\$ 3,065,589
Provisions recognized	2,988,659	274,159	3,262,818
Usage	( 3,067,968)	( 66,233)	( 3,134,201)
Effect of foreign currency exchange differences	<u>( 7,186)</u>	<u>-</u>	<u>( 7,186)</u>
Balance, end of the year	<u>\$ 2,605,752</u>	<u>\$ 581,268</u>	<u>\$ 3,187,020</u>

	2016		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	\$ 4,773,914	\$ 677,893	\$ 5,451,807
Provisions recognized (reversed)	3,865,929	( 271,104)	3,594,825
Usage	( 5,947,760)	( 33,447)	( 5,981,207)
Effect of foreign currency exchange differences	<u>164</u>	<u>-</u>	<u>164</u>
Balance, end of the year	<u>\$ 2,692,247</u>	<u>\$ 373,342</u>	<u>\$ 3,065,589</u>

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

**20. RETIREMENT BENEFIT PLANS****Defined Contribution Plans**

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

The total expenses recognized in the statement of comprehensive income were NT\$293,585 thousand and NT\$308,042 thousand, representing the contributions made and to be made to these plans by the Company at the rates specified in the plans for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the amounts of contributions payable were NT\$72,537 thousand and NT\$76,488 thousand, respectively, representing contributions not yet paid for the reporting period. The amounts were paid subsequent to the end of the reporting period.

**Defined Benefit Plans**

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated based on the years of services and the average monthly salaries of the six months before retirement. The Company contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name.

Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the following year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

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

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ (577,335)	\$ (530,455)
Fair value of plan assets	<u>597,146</u>	<u>572,043</u>
Net defined benefit asset	<u>\$ 19,811</u>	<u>\$ 41,588</u>

Movements in net defined benefit asset were as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Asset
Balance at January 1, 2016	\$ ( 472,370)	\$ 552,348	\$ 79,978
Current service cost	( 8,751)	-	( 8,751)
Net interest (expense) income	<u>( 8,266)</u>	<u>9,972</u>	<u>1,706</u>
Recognized in profit or loss	<u>( 17,017)</u>	<u>9,972</u>	<u>( 7,045)</u>
Remeasurement			
Return on plan assets	-	( 6,000)	( 6,000)
Actuarial loss - changes in demographic assumptions	( 19,755)	-	( 19,755)
Actuarial loss - changes in financial assumptions	( 18,521)	-	( 18,521)
Actuarial loss - experience adjustments	<u>( 8,867)</u>	<u>-</u>	<u>( 8,867)</u>
Recognized in other comprehensive income	<u>( 47,143)</u>	<u>( 6,000)</u>	<u>( 53,143)</u>
Contributions from the employer	-	21,798	21,798
Benefits paid	<u>6,075</u>	<u>( 6,075)</u>	<u>-</u>
Balance at December 31, 2016	<u>( 530,455)</u>	<u>572,043</u>	<u>41,588</u>
Current service cost	( 11,492)	-	( 11,492)
Net interest (expense) income	<u>( 7,957)</u>	<u>8,742</u>	<u>785</u>
Recognized in profit or loss	<u>( 19,449)</u>	<u>8,742</u>	<u>( 10,707)</u>
Remeasurement			
Return on plan assets	-	( 3,104)	( 3,104)
Actuarial loss - changes in demographic assumptions	( 59,059)	-	( 59,059)
Actuarial gain - experience adjustments	<u>29,795</u>	<u>-</u>	<u>29,795</u>
Recognized in other comprehensive income	<u>( 29,264)</u>	<u>( 3,104)</u>	<u>( 32,368)</u>

(Continued)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Asset
Contributions from the employer	\$ -	\$ 21,298	\$ 21,298
Benefits paid	<u>1,833</u>	<u>( 1,833)</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ ( 577,335)</u>	<u>\$ 597,146</u>	<u>\$ 19,811</u>

(Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans was as follows:

	December 31	
	2017	2016
Operating costs	\$ 2,188	\$ 1,566
Selling and marketing expenses	957	671
General and administrative expenses	1,432	852
Research and development expenses	<u>6,130</u>	<u>3,956</u>
	<u>\$ 10,707</u>	<u>\$ 7,045</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- Investment risk:** The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- Interest risk:** A decrease in the government/corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- Salary risk:** The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2017	2016
Discount rate	1.50%	1.50%
Expected rate of salary increase	4.00%	4.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would (increase) decrease as follows:

	December 31	
	2017	2016
Discount rate		
0.25% increase	<u>\$ 20,673</u>	<u>\$ 19,035</u>
0.25% decrease	<u>\$ ( 21,651)</u>	<u>\$ ( 19,939)</u>
Expected rate of salary increase		
0.25% increase	<u>\$ ( 20,833)</u>	<u>\$ ( 19,180)</u>
0.25% decrease	<u>\$ 20,011</u>	<u>\$ 18,420</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 20,447</u>	<u>\$ 21,547</u>
The average duration of the defined benefit obligation	15.00 years	15.27 years

## 21. EQUITY

### Share Capital

#### a. Ordinary shares

	December 31	
	2017	2016
Number of shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>
Shares authorized	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Number of shares issued and fully paid (in thousands of shares)	<u>820,826</u>	<u>822,009</u>
Shares issued	<u>\$ 8,208,261</u>	<u>\$ 8,220,087</u>

In July 2016, the Company issued 2,657 thousand of restricted shares amounting to NT\$26,570 thousand. For the year ended in 2016, the Company retired 1,358 thousand restricted shares for employees amounting to NT\$13,578 thousand. In February and August 2016, the Company retired 4,110 thousand and 7,050 thousand treasury shares amounting to NT\$41,100 thousand and NT\$70,500 thousand, respectively. As a result, the amount of the Company's outstanding ordinary shares as of December 31, 2016 decreased to NT\$8,220,087 thousand, divided into 822,009 thousand ordinary shares at NT\$10 par value. Every ordinary share carries one vote per share and a right to dividends.

For the year ended 2017, the Company retired 1,193 thousand restricted shares for employees amounting to NT\$11,926 thousand. In October 2017, the employee stock options have been exercised by issuing 10 thousand shares amounting to NT\$100 thousand. As a result, the amount of the Company's outstanding ordinary shares as of December 31, 2017 decreased to NT\$8,208,261 thousand, divided into 820,826 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 the Company's common shares authorized were reserved for the issuance of employee share options.

#### b. Global depositary receipts

In November 2003, the Company issued 14,400 thousand ordinary shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, the Company's shareholders, including Via Technologies, Inc., also issued 12,878.4 thousand ordinary shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of stock dividends, the GDRs increased to 8,782.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's ordinary shares. As of December 31, 2017, there were 5,793 thousand units of GDRs redeemed, representing 23,171.9 thousand ordinary shares, and the outstanding GDRs represented 12,888.6 thousand ordinary shares or 1.57% of the Company's issued and outstanding ordinary shares.

### Capital Surplus

	December 31	
	2017	2016
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Arising from issuance of ordinary shares	\$ 14,659,563	\$ 14,121,223
Arising from consolidation excess	23,288	23,288
Arising from expired stock options	186,052	84,462
<u>May not be used for any purpose</u>		
Arising from employee share options	572,369	645,111
Arising from employee restricted shares	<u>110,219</u>	<u>740,557</u>
	<u>\$ 15,551,491</u>	<u>\$ 15,614,641</u>

The capital surplus arising from shares issued in excess of par (including share premium from issuance of ordinary shares, treasury share transactions, consolidation excess and expired stock options) and donations may be used to offset a deficit; in addition, when the Company has no accumulated 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 only be transferred once a year).

In February and August 2016, the retirement of treasury shares caused a decrease of NT\$70,715 thousand and NT\$120,988 thousand in additional paid-in capital - issuance of ordinary shares, NT\$117 thousand and NT\$199 thousand in capital surplus - consolidation excess and NT\$177 thousand and NT\$573 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 and NT\$244,609 thousand, respectively.

For details of capital surplus - employee share options and employee restricted shares, please see Note 26.

### Retained Earnings and Dividend Policy

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

- To pay taxes.
- To cover accumulated losses, if any.

- c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital.
- d. To recognize or reverse special reserve return earnings.
- e. 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, the Company 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. The Company'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. The Company 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 23.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's capital. Legal reserve may be used to offset deficit. If the Company has no 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 appropriation of profit or loss for 2016 and 2015 had been resolved in the shareholders' meeting on June 15, 2017 and June 24, 2016, respectively.

The loss off-setting for 2017 had been proposed by the Company's board of directors on March 25, 2018. The loss off-setting for 2017 are subject to the resolution of the shareholders' meeting to be held on June 26, 2018.

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

### Other Equity

	December 31	
	2017	2016
Exchange differences on translating foreign operations	\$ ( 2,183,148)	\$ ( 781,298)
Unrealized losses on available-for-sale financial assets	( 35,690)	( 167,082)
Unearned employee benefit	<u>( 49,590)</u>	<u>( 253,922)</u>
	<u>\$ ( 2,268,428)</u>	<u>\$ ( 1,202,302)</u>

#### a. Exchange differences on translating foreign operations

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

#### b. Unrealized gains or losses on available-for-sale financial assets

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

#### c. 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 26 for the information of restricted shares issued.

	For the Year Ended December 31	
	2017	2016
Balance, beginning of the year	\$ ( 253,922)	\$ ( 371,369)
Issuance of shares	-	( 158,471)
Adjustment of turnover rate	104,517	( 5,667)
Share-based payment expenses recognized	<u>99,815</u>	<u>281,585</u>
Balance, end of the year	<u>\$ ( 49,590)</u>	<u>\$ ( 253,922)</u>

### Treasury Shares

On August 24, 2015, the Company'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 the Company's share price was lower than this price range, the Company might continue to buy back its shares.

Reason to Reacquire	(In Thousands of Shares)			
	Number of Shares, Beginning of the Year	Addition During the Year	Reduction During the Year	Number of Shares, End of the Year
<u>For 2016</u>				
To maintain the Company's credibility and shareholders' interest	<u>4,110</u>	<u>7,050</u>	<u>11,160</u>	<u>-</u>

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

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

## 22. OPERATING REVENUES

	For the Year Ended December 31	
	2017	2016
Sale of goods	\$ 56,910,227	\$ 71,726,778
Other operating income	<u>2,423,666</u>	<u>2,501,340</u>
	<u>\$ 59,333,893</u>	<u>\$ 74,228,118</u>

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT\$(4,389) thousand and NT\$(40,299) thousand of the gain or loss on the hedging instrument that was determined to be the effective portion of the hedge to sales of goods for the years ended in 2017 and 2016, respectively.

The Company had bought back 4,110 thousand shares for NT\$200,955 thousand during the repurchase period, which were retired by the Company'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 common 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 during the repurchase period which were retired by the Company's board of directors on August 2, 2016, and such retired share had been properly deregistered subsequently. The related information on the treasury share transactions were as follows:

## 23. NET LOSS FROM CONTINUING OPERATIONS AND OTHER COMPREHENSIVE INCOME AND LOSS

### a. Other income

	For the Year Ended December 31	
	2017	2016
Interest income - bank deposits	\$ 76,579	\$ 121,919
Others	<u>300,714</u>	<u>71,036</u>
	<u>\$ 377,293</u>	<u>\$ 192,955</u>

### b. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Net gain on disposal of non-current assets held for sale (Note 13)	\$ -	\$ 2,091,594
Net gain on disposal of property, plant and equipment (Note 15)	-	1,107,909
Net foreign exchange gain (loss)	1,081,637	( 177,620)
Net (loss) gain arising from financial instruments classified as held for trading	( 9,985)	10,222
Ineffective portion of cash flow hedge (Note 8)	3,538	2,056
Impairment loss (Notes 9 and 15)	( 203,927)	-
Other loss	<u>( 15,318)</u>	<u>( 28,356)</u>
	<u>\$ 855,945</u>	<u>\$ 3,005,805</u>

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

### c. Impairment (reversal gain) loss on financial assets

	For the Year Ended December 31	
	2017	2016
Trade receivables (included in operating expenses)	\$ ( 362,870)	\$ ( 299,951)
Financial assets measured at cost - non-current (included in other gains and losses)	<u>5,569</u>	<u>-</u>
	<u>\$ ( 357,301)</u>	<u>\$ ( 299,951)</u>

### d. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 716,572	\$ 1,121,095
Intangible assets	<u>237,503</u>	<u>361,804</u>
	<u>\$ 954,075</u>	<u>\$ 1,482,899</u>
Classification of depreciation - by function		
Operating costs	\$ 279,356	\$ 516,629
Operating expenses	<u>437,216</u>	<u>604,466</u>
	<u>\$ 716,572</u>	<u>\$ 1,121,095</u>
Classification of amortization - by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>237,503</u>	<u>361,804</u>
	<u>\$ 237,503</u>	<u>\$ 361,804</u>

### e. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term benefits	\$ 8,269,080	\$ 7,985,405
Post-employment benefits (Note 20)		
Defined contribution plans	293,585	308,042
Defined benefit plans	<u>10,707</u>	<u>7,045</u>
	<u>304,292</u>	<u>315,087</u>
Share-based payments (Note 26)		
Equity-settled share-based payments	<u>129,647</u>	<u>404,461</u>
Total employee benefits expense	<u>\$ 8,703,019</u>	<u>\$ 8,704,953</u>
Classification - by function		
Operating costs	\$ 2,466,299	\$ 2,833,795
Operating expenses	<u>6,236,720</u>	<u>5,871,158</u>
	<u>\$ 8,703,019</u>	<u>\$ 8,704,953</u>

In compliance with the Company Act as amended in May 2015, the shareholders held their meeting and resolved amendments to the Company'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 employees' compensation and remuneration to directors and supervisors were estimated as the Company reported net losses for the years ended December 31, 2017 and 2016.

If there is a change in the proposed amounts after the annual parent company only 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 the board of directors in 2018 and 2017, see disclosures in the "Market Observation Post System".

### f. Impairment losses on non-financial assets

	For the Year Ended December 31	
	2017	2016
Inventories (included in operating costs)	\$ 5,558,923	\$ 1,956,188
Property, plant and equipment (included in other gains and losses)	<u>198,358</u>	<u>-</u>
	<u>\$ 5,757,281</u>	<u>\$ 1,956,188</u>

### g. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2017	2016
Foreign exchange gain	\$ 5,095,483	\$ 4,295,530
Foreign exchange loss	( 4,013,846)	( 4,473,150)
Valuation (loss) gain arising from financial instruments classified as held for trading	( 9,985)	10,222
Ineffective portion of cash flow hedge	<u>3,538</u>	<u>2,056</u>
	<u>\$ 1,075,190</u>	<u>\$ ( 165,342)</u>

## 24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

### a. Income tax benefit recognized in profit or loss

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	\$ -	\$ 46,617
Land value increment	-	226,333
Adjustments for previous years	<u>( 147,538)</u>	<u>( 276)</u>
	<u>( 147,538)</u>	<u>272,674</u>

(Continued)

	For the Year Ended December 31	
	2017	2016
Deferred tax		
In respect of the current year	\$ ( 404,200)	\$ ( 805,000)
Income tax benefit recognized in profit or loss	<u>( 551,738)</u>	<u>( 532,326)</u>

(Concluded)

A reconciliation of accounting loss and income tax benefit and the applicable tax rate were as follows:

	For the Year Ended December 31	
	2017	2016
Loss before income tax	<u>\$ ( 17,457,451)</u>	<u>\$ ( 11,092,429)</u>
Income tax benefit calculated at 17%	( 2,967,766)	( 1,885,713)
Effect of expenses that were not deductible in determining taxable profit	44,316	24,294
Share of the profit or loss of subsidiaries, associates and joint venture	521,494	480,053
Effect of temporary differences	161,611	697,414
Effect of loss carryforward	1,836,145	490,885
Effect of income that is exempt from taxation	-	( 611,933)
Land value increment	-	226,333
Adjustments for previous years' tax	( 147,538)	( 276)
Overseas income tax	<u>-</u>	<u>46,617</u>
Income tax benefit recognized in profit or loss	<u>\$ ( 551,738)</u>	<u>\$ ( 532,326)</u>

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

### b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
Deferred tax		
Recognized in current year		
Remeasurement on defined benefit plan (tax benefit)	<u>\$ ( 3,885)</u>	<u>\$ ( 6,377)</u>



**25. LOSS PER SHARE**

	Unit: NT\$ Per Share	
	For the Year Ended December 31	
	2017	2016
Basic loss per share	<u>\$ ( 20,58)</u>	<u>\$ ( 12,81)</u>

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

**Net Loss for the Years**

	For the Year Ended December 31	
	2017	2016
	Net loss for the year	<u>\$ (16,905,713)</u>

**Shares**

	Unit: In Thousands of Shares	
	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic loss per share	<u>821,593</u>	<u>824,084</u>

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

Information on employee share options was as follows:

	For the Year Ended December 31			
	2017		2016	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
Balance at January 1	20,072	\$ 136.65	24,964	\$ 137.20
Options exercised	( 10)		-	
Options forfeited	<u>( 3,994)</u>		<u>( 4,892)</u>	
Balance at December 31	<u>16,068</u>	\$ 137.45	<u>20,072</u>	\$ 136.65
Options exercisable, end of the year	<u>15,792</u>		<u>14,658</u>	

**26. SHARE-BASED PAYMENT ARRANGEMENTS****Employee Share Option Plan of the Company**

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

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

Qualified employees of the Company and its subsidiaries were granted 1,000 thousand options in August 2015. Each option entitles the holder to subscribe for one ordinary share of the Company. 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 the Company's ordinary shares on the grant date. For any subsequent changes in the Company's ordinary shares, the exercise price is adjusted accordingly.

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

	December 31	
	2017	2016
	Range of exercise price (NT\$)	\$54.5-\$149
Weighted-average remaining contractual life (years)	5.24 years	6.30 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 2016	October 2015	November 2014
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 held on June 19, 2014 and June 2, 2015, the shareholders approved a restricted stock plan for employees with 5,000 thousand and 7,500 thousand shares amounting to NT\$50,000 thousand and NT\$75,000 thousand, respectively. In 2014 and 2015, the Company's board of directors passed a resolution to issue 5,000 thousand shares 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:

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

If an employee fails to meet the vesting conditions, the Company will recall or buy back and cancel the restricted shares. For the years ended December 31, 2016 and 2017, the Company retired 1,358 thousand and 1,193 thousand restricted shares for employees amounting to NT\$13,578 thousand and NT\$11,926 thousand, respectively. As a result, the numbers of the Company's issued and outstanding employee restricted shares as of December, 2017 was 3,209 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 were NT\$129,647 thousand and NT\$404,461 thousand for the years ended December 31, 2017 and 2016, respectively.

## 27. 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.

### a. Fair value hierarchy

December 31, 2017				
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	\$ -	\$ 65,199	\$ -	\$ 65,199
Available-for-sale financial assets				
Domestic listed stocks - equity investments	\$ 91	\$ -	\$ -	\$ 91
Financial liabilities at FVTPL				
Derivative financial instruments	\$ -	\$ 75,184	\$ -	\$ 75,184
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
Financial liabilities at FVTPL				
Derivative financial instruments	\$ -	\$ 133,420	\$ -	\$ 133,420

There were no transfers between Level 1 and 2 for the years ended December 31, 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.

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

## 28. FINANCIAL INSTRUMENTS

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

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

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

## Categories of Financial Instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
FVTPL		
Held for trading	\$ 65,199	\$ 143,642
Loans and receivables (Note 1)	7,933,935	28,542,995
Available-for-sale financial assets (Note 2)	510,383	515,947
<u>Financial liabilities</u>		
FVTPL		
Held for trading	\$ 75,184	\$ 133,420
Amortized cost (Note 3)	27,306,425	45,693,321

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other financial assets, trade receivables, other receivables and refundable deposits.

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

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

## Financial Risk Management Objectives and Policies

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

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

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

### a. Market risk

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

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

#### Foreign currency risk

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

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 33.

#### Sensitivity analysis

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

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

	Profit or Loss	Equity
<u>For the year ended</u>		
<u>December 31, 2017</u>		
USD	\$ 30,978	\$ ( 136,557)
EUR	2,751	( 5,429)
RMB	( 8,819)	( 99,138)
JPY	( 1,356)	( 1,376)

	Profit or Loss	Equity
<u>For the year ended</u>		
<u>December 31, 2016</u>		
USD	\$ 44,739	\$ ( 166,009)
EUR	975	( 19,292)
RMB	( 26,064)	( 114,465)
JPY	11,035	( 1,284)

### 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 is disclosed in the Note 10.

### c. Liquidity risk

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

### 1) Liquidity risk tables 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.

<u>December 31, 2017</u>	Less Than 3 Months	3 to 12 Months	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 7,855,138	\$ 7,441,270	\$ -
Other payables	7,111,736	4,796,378	-
Other current liabilities	100,638	-	-
Guarantee deposits received	-	-	1,265
	<u>\$ 15,067,512</u>	<u>\$ 12,237,648</u>	<u>\$ 1,265</u>

<u>December 31, 2016</u>	Less Than 3 Months	3 to 12 Months	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 11,094,756	\$ 16,356,365	\$ -
Other payables	7,006,934	10,842,331	-
Other current liabilities	181,112	210,355	-
Guarantee deposits received	-	-	1,468
	<u>\$ 18,282,802</u>	<u>\$ 27,409,051</u>	<u>\$ 1,468</u>

### 2) Liquidity risk 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.

<u>December 31, 2017</u>	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	\$ 36,842	\$ -	\$ -
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	14,373,269	-	-
Outflows	( 14,386,102)	-	-
	<u>\$ ( 12,833)</u>	<u>\$ -</u>	<u>\$ -</u>

<u>December 31, 2016</u>	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	\$ 73,323	\$ -	\$ -
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	15,227,772	-	-
Outflows	( 15,250,504)	-	-
	<u>\$ ( 22,732)</u>	<u>\$ -</u>	<u>\$ -</u>

### 3) Bank credit limit

	December 31	
	2017	2016
Unsecured bank general credit limit		
Amount used	\$ 294,870	\$ 710,857
Amount unused	<u>18,315,345</u>	<u>22,227,369</u>
	<u>\$ 18,610,215</u>	<u>\$ 22,938,226</u>

Amount used includes guarantee for customs duties and for patent litigation.

Related-party	Relationship with the Company
HTC (Thailand) Limited	Subsidiaries
HTC India Private Limited	Subsidiaries
HTC Malaysia Sdn. Bhd.	Subsidiaries
HTC Communication Co., Ltd.	Subsidiaries
HTC HK, Limited	Subsidiaries
HTC Communication Technologies (SH)	Subsidiaries
HTC Vietnam Services One Member Limited Liability Company	Subsidiaries
Yoda Co., Ltd.	Subsidiaries
HTC Communication (BJ) Tech Co.	Subsidiaries
HTC Corporation (Shanghai WGQ)	Subsidiaries
HTC Electronics (Shanghai) Co., Ltd.	Subsidiaries
HTC Netherlands B.V.	Subsidiaries
HTC South Eastern Europe Limited liability Company	Subsidiaries
HTC EUROPE CO., LTD.	Subsidiaries
HTC BRASIL	Subsidiaries
HTC Belgium BVBA/SPRL	Subsidiaries
HTC NIPPON Corporation	Subsidiaries
HTC FRANCE CORPORATION	Subsidiaries
HTC Italia SRL	Subsidiaries
HTC Germany GmbH.	Subsidiaries

## 29. RELATED-PARTY TRANSACTIONS

### The Names and Relationships of Related-parties

Related-party	Relationship with the Company
Communication Global Certification Inc.	Subsidiaries
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiaries
PT. High Tech Computer Indonesia	Subsidiaries
HTC (Australia and New Zealand) PTY LTD.	Subsidiaries

(Continued)

(Continued)

Related-party	Relationship with the Company
HTC Iberia S.L.	Subsidiaries
HTC Poland sp. z o.o.	Subsidiaries
HTC Communication Canada, Ltd.	Subsidiaries
HTC Communication Sweden AB	Subsidiaries
HTC Middle East FZ-LLC	Subsidiaries
HTC Communication Solutions Mexico, S.A DE C.V.	Subsidiaries
HTC Servicios DE Operacion Mexico, S.A DE C.V.	Subsidiaries
HTC America Inc.	Subsidiaries
One & Company Design, Inc.	Subsidiaries
HTC America Innovation Inc.	Subsidiaries
Dashwire, Inc.	Subsidiaries
Inquisitive Minds, Inc.	Subsidiaries
S3 Graphics Co., Ltd.	Subsidiaries
HTC Czech RC s.r.o.	Subsidiaries
VIA Technologies Inc.	Its chairman in substance is the Company's director
VIA Labs, Inc.	Its chairman in substance is the Company's director
Way Chih Investment Co., Ltd.	The Company's supervisor
HTC Education Foundation	Its chairman in substance is the Company's director
TVBS Media Inc.	Same director as the Company's
Hung-Mao Investment Co., Ltd.	Its significant shareholder in substance is the Company's chairwoman
Nan Ya Plastics Corporation	Its director in substance and the Company's chairwoman are relatives and other relatives
Atrust Computer Corporation	Its general manager in substance is the Company's director
Employees' Welfare Committee	Employees' Welfare Committee of the Company
Huada Digital Corporation	Joint Venture (Concluded)

### Operating Sales

	For the Year Ended December 31	
	2017	2016
Subsidiaries		
HTC America Inc.	\$ 22,910,624	\$ 26,332,398
Others	3,062,795	3,225,530
Joint venture	-	28,955
Employees' Welfare Committee	-	937
Other related parties	<u>83,165</u>	<u>102,003</u>
	<u>\$ 26,056,584</u>	<u>\$ 29,689,823</u>

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

	December 31	
	2017	2016
Subsidiaries		
HTC NIPPON Corporation	\$ 472,572	\$ 443,625
HTC America Inc.	232,722	4,764,469
Others	218,404	1,435,360
Other related parties	<u>22,400</u>	<u>15,720</u>
	<u>\$ 946,098</u>	<u>\$ 6,659,174</u>

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been asked for trade receivables from related parties. Trade receivables from related parties are assessed without bad debt risk hence no bad debt expense had been recognized for the year ended December 31, 2017 and 2016.

### Purchase and Outsourcing Expense

	For the Year Ended December 31	
	2017	2016
<u>Purchase</u>		
Subsidiaries	\$ 117,503	\$ 637,607
Other related parties	<u>3,360</u>	<u>1,866</u>
	<u>\$ 120,863</u>	<u>\$ 639,473</u>
<u>Outsourcing expense</u>		
Subsidiaries	<u>\$ 1,131</u>	<u>\$ 22,001</u>

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

	December 31	
	2017	2016
Subsidiaries	\$ 244,967	\$ 801,599
Other related parties	<u>960</u>	<u>1,866</u>
	<u>\$ 245,927</u>	<u>\$ 803,465</u>

Purchase prices for related parties and third parties were similar. Outsourcing expenses were calculated based on contracted processing rate. The outstanding balances of trade payables to related parties are unsecured and will be settled in cash.

### Compensation of Key Management Personnel

	For the Year Ended December 31	
	2017	2016
Short-term benefits	\$ 193,486	\$ 280,916
Post-employment benefits	2,279	2,355
Share-based payments	<u>17,404</u>	<u>76,237</u>
	<u>\$ 213,169</u>	<u>\$ 359,508</u>

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

### Property, Plant and Equipment Acquired

	Price	
	For the Year Ended December 31	
	2017	2016
Subsidiaries	\$ -	\$ 417
Other related parties	<u>-</u>	<u>81</u>
	<u>\$ -</u>	<u>\$ 498</u>

### Services, Marketing and Commission Expenses

	December 31	
	2017	2016
Subsidiaries		
HTC EUROPE CO., LTD.	\$ 964,214	\$ 2,206,250
Others	2,934,362	3,924,627
Other related parties	<u>6,000</u>	<u>6,427</u>
	<u>\$ 3,904,576</u>	<u>\$ 6,137,304</u>

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

	December 31	
	2017	2016
Subsidiaries	\$ 1,397,471	\$ 1,610,749
Other related parties	<u>7,162</u>	<u>9,101</u>
	<u>\$ 1,404,633</u>	<u>\$ 1,619,850</u>

Subsidiaries assisted the Company to expand business overseas and render design, research and development support, consulting services and after-sales services. The related expenses were classified as services, marketing and commission expenses in accordance with their nature.

### Other Related-party Transactions

a. To enhance product diversity, the Company entered

into technology license agreement with subsidiaries. The royalty expense were NT\$79 thousand for the years ended December 31, 2016. As of December 31, 2017 and 2016 the amounts of prepaid royalty were NT\$54,737 thousand and NT\$61,557 thousand, respectively.

b. 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, totaling NT\$4,708 thousand and NT\$6,560 thousand for the year ended December 31, 2017 and 2016, respectively.

## 30. PLEDGED ASSETS

As of December 31, 2017 and 2016, the time of deposits amounting to NT\$149,195 thousand and NT\$112,943 thousand were classified as other current financial assets were provided respectively as collateral for litigation.

## 31. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

In June 2011, IPCOM filed a new complaint against the Company alleging patent infringement of patent owned by IPCOM with the High Court in London, the United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in above-mentioned courts in Germany and the United Kingdom are still ongoing. The Company implemented the alternative solution since 2012. The Company

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

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

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

As of the date that the board of directors approved and authorized for issuing parent company only 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 parent company only financial statements, the appeals court has not issued a ruling with respect to the EP '687 patent.

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

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

### 32. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On September 21 2017, the Company signed a business cooperation agreement with Google Inc. (Google). The agreement supports the Company's continued use of its brand, enabling a more streamlined product portfolio, greater operational efficiency and financial flexibility. The part of employees and assets of the Company will transfer to Google and Google will receive a non-exclusive license for the HTC intellectual property. The transaction amounted to US\$1,100,000 thousand and completed on January 30, 2018.

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

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31			
	2017		2016	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<b>Financial assets</b>				
<b>Monetary items</b>				
USD	\$ 687,307	29.84	\$ 1,199,057	32.27
EUR	63,842	35.66	113,513	33.91
JPY	4,931,169	0.2649	2,235,540	0.2756
RMB	271,120	4.58	1,304,485	4.62
<b>Investments accounted for by the equity method</b>				
USD	215,505	29.84	263,013	32.27
SGD	919,140	22.32	1,293,365	22.30
<b>Financial liabilities</b>				
<b>Monetary items</b>				
USD	797,006	29.84	1,498,673	32.27
EUR	69,566	35.66	97,605	33.91
JPY	4,308,994	0.2649	6,252,717	0.2756
RMB	49,409	4.58	135,227	4.62

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange gain (loss) were NT\$1,075,190 thousand and NT\$(165,342) 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.

### 34. 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.
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.

(Continued)

Contractor	Term	Description
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.
Google Inc.	September 21, 2017 - January 30, 2018	Certain HTC employees who are already working with Google Inc. to develop Pixel smartphones will join Google Inc. HTC will receive US\$1.1 billion in cash from Google Inc. as part of the transaction. Separately, Google Inc. will receive a non-exclusive license for HTC intellectual property.

(Concluded)

## 6. INDEPENDENT AUDITORS' REPORT

### The Board of Directors and Shareholders HTC Corporation

#### Opinion

We have audited the accompanying consolidated financial statements of HTC Corporation and its subsidiaries (collectively referred to as the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China.

#### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in Taiwan, the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of Taiwan, the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of the consolidated financial statements for the year ended December 31, 2017 are as follows:

**Allowance for Doubtful Accounts**

As of December 31, 2017, the balance of allowance for doubtful accounts amounted to NT\$3,901,541 thousand. The allowance for doubtful accounts was arrived at by reference to the aging of receivables and credit risk assessment of customers. The Company has only one major customer. All the other customers are located in areas with varied economic situations; thus, the credit risk are also varied. The Company's use of judgment in evaluating the adequacy of allowance for doubtful accounts and the large amount of trade receivables make the evaluation of allowance for doubtful accounts a key audit matter.

We obtained an understanding of the accounting policy on the evaluation of allowance for doubtful accounts, including the assessment of credit risk on every customer. We tested the aging schedule prepared by the Company against the supporting documents. We checked compliance with the Company's policy on the evaluation of allowance for doubtful accounts. We compared the allowance for doubtful accounts at the end of the current and prior periods for reasonableness.

For the accounting policy on the evaluation of allowance for doubtful accounts, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Notes 11 and 32.

**Valuation of Inventories**

The Company's operations are mainly in the research, manufacture and sale of smart mobile devices, and the balance of inventories amounted to NT\$7,381,426 thousand as of December 31, 2017. Due to the rapid change in technology, the industry is highly competitive; in addition, since the management needs to apply judgment to evaluate the net realizable value of inventories and as the balance of inventories represents a significant portion of the consolidated financial statements as of December 31, 2017, the valuation of inventories was deemed to be a key audit matter.

We evaluated the accounting policy on the assessment of inventory write-downs. We obtained an understanding of the products and their classifications and marketing plans and we tested the Company's determination of net realizable value.

For the accounting policy on the assessment of inventory write-downs, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Note 12.

**Impairment of Property, Plant and Equipment, Prepayments, Intangible Assets and Deferred Tax Assets**

As of December 31, 2017, the carrying amounts of property, plant and equipment, prepayments, intangible assets and deferred tax assets were NT\$10,798,613 thousand, NT\$3,976,719 thousand, NT\$2,315,905 thousand and NT\$8,990,648 thousand, respectively. The Company operates in a highly competitive environment. From previous periods, the current period operating conditions and earnings deteriorated significantly, indicating potential impairment of the assets. As impairment may be material to the consolidated financial statements for the year ended December 31, 2017, the evaluation of impairment was deemed to be a key audit matter.

The audit procedures performed in respect of the Company's assessment of assets for impairment included the following:

1. We obtained an understanding of the procedures and controls performed by management in assessing the impairment of assets.
2. We evaluated whether the assessment performed by management considered the operating conditions and the industry situation.
3. We evaluated the reasonableness of comparable information, discount rate and recovery rate used in the report of external expert.

For the accounting policy on the impairment of property, plant and equipment, prepayments, intangible assets and deferred tax assets, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Notes 13, 17, 19 and 27.

**Revenue Recognition**

According to the accounting policy stated in Note 4, revenue from the sale of goods is recognized when the significant risks and ownership are transferred to the buyers. Considering that some trade receivables have become overdue indicating credit risk in customers, sales revenue may need stricter validation. Because of the significance of sales revenue, revenue recognition was deemed to be a key audit matter.

We have obtained necessary understanding and have verified the accounting policy and the design and implementation of internal controls with respect to the Company's revenue recognition. We checked compliance with the accounting policy on revenue recognition by reviewing the relevant contracts. For ensuring the Company's compliance with IAS 18, samples from the recognized revenue have been selected to verify if the conditions of revenue recognition were met.

**Other Matters**

We have also audited the parent company only financial statements of HTC Corporation as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including management and supervisors, are responsible for overseeing the Company's financial reporting process.

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in Taiwan, the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in Taiwan, the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are

therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China  
March 25, 2018

#### Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES  
**CONSOLIDATED BALANCE SHEETS**  
DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 10,443,227	16	\$ 30,080,217	29
Financial assets at fair value through profit or loss - current (Notes 7 and 32)	65,199	-	143,642	-
Available-for-sale financial assets - current (Note 32)	312,106	-	199,344	-
Debt investments with no active market - current (Note 32)	-	-	8,067	-
Trade receivables, net (Notes 11 and 33)	8,537,096	13	15,961,835	15
Other receivables (Note 11)	103,497	-	168,526	-
Current tax assets (Note 27)	131,901	-	184,817	-
Inventories (Note 12)	7,381,426	11	14,163,571	14
Prepayments (Note 13)	1,742,986	3	1,833,499	2
Non-current assets held for sale (Note 14)	1,647,763	3	-	-
Other current financial assets (Notes 10 and 34)	7,988,363	12	5,750,450	6
Other current assets	135,821	-	68,414	-
<b>Total current assets</b>	<b>38,489,385</b>	<b>58</b>	<b>68,562,382</b>	<b>66</b>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets - non-current (Note 32)	91	-	86	-
Financial assets measured at cost - non-current (Notes 9 and 32)	3,187,240	5	3,363,736	3
Debt investments with no active market - non-current (Note 32)	-	-	25,009	-
Investments accounted for using equity method (Note 16)	413,120	1	531,445	1
Property, plant and equipment (Notes 17 and 33)	10,798,613	16	12,025,496	12
Investment properties, net (Note 18)	-	-	1,527,001	1
Intangible assets (Note 19)	2,315,441	3	3,878,356	4
Deferred tax assets (Note 27)	8,990,648	14	8,957,876	9
Refundable deposits (Note 32)	139,016	-	1,501,480	1
Net defined benefit asset - non-current (Note 23)	18,119	-	40,439	-
Other non-current assets (Note 13)	2,233,733	3	2,735,876	3
<b>Total non-current assets</b>	<b>28,096,021</b>	<b>42</b>	<b>34,586,800</b>	<b>34</b>
<b>TOTAL</b>	<b>\$ 66,585,406</b>	<b>100</b>	<b>\$ 103,149,182</b>	<b>100</b>

(Continued)

LIABILITIES AND EQUITY	2017		2016	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 32)	\$ 75,184	-	\$ 133,420	-
Note and trade payables (Notes 20 and 33)	14,569,222	22	26,247,728	26
Other payables (Note 21)	11,681,890	18	18,348,734	18
Current tax liabilities (Note 27)	253,240	-	155,651	-
Provisions - current (Note 22)	3,377,201	5	3,384,311	3
Other current liabilities (Note 21)	2,850,713	4	3,004,432	3
<b>Total current liabilities</b>	<b>32,807,450</b>	<b>49</b>	<b>51,274,276</b>	<b>50</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Note 27)	47,147	-	81,294	-
Guarantee deposits received (Note 32)	5,681	-	22,106	-
<b>Total non-current liabilities</b>	<b>52,828</b>	<b>-</b>	<b>103,400</b>	<b>-</b>
<b>Total liabilities</b>	<b>32,860,278</b>	<b>49</b>	<b>51,377,676</b>	<b>50</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 24)</b>				
Share capital - ordinary shares	8,208,261	12	8,220,087	8
Capital surplus	15,551,491	24	15,614,641	15
Retained earnings				
Legal reserve	18,297,655	27	18,297,655	18
(Accumulated deficits) unappropriated earnings	( 6,093,403)	( 9)	10,841,425	10
Other equity	( 2,268,428)	( 3)	( 1,202,302)	( 1)
<b>Total equity attributable to owners of the parent</b>	<b>33,695,576</b>	<b>51</b>	<b>51,771,506</b>	<b>50</b>
<b>NON-CONTROLLING INTERESTS</b>				
<b>Total equity</b>	<b>33,725,128</b>	<b>51</b>	<b>51,771,506</b>	<b>50</b>
<b>TOTAL</b>	<b>\$ 66,585,406</b>	<b>100</b>	<b>\$ 103,149,182</b>	<b>100</b>

(Concluded)

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

HTC CORPORATION AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 8, 25 and 33)	\$ 62,119,814	100	\$ 78,161,158	100
OPERATING COST (Notes 12, 23, 26 and 33)	60,780,122	98	68,726,567	88
GROSS PROFIT	1,339,692	2	9,434,591	12
OPERATING EXPENSES (Notes 23, 26 and 33)				
Selling and marketing	4,792,893	8	8,861,758	11
General and administrative	3,532,107	5	4,223,697	6
Research and development	10,440,209	17	10,957,200	14
Total operating expenses	18,765,209	30	24,042,655	31
OPERATING LOSS	( 17,425,517)	( 28)	( 14,608,064)	( 19)
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 26)	673,103	1	643,078	1
Other gains and losses (Notes 8, 14, 17 and 26)	( 85,851)	-	3,448,618	4
Finance costs	( 33,315)	-	( 5,298)	-
Share of the profit or loss of associates and joint venture (Note 16)	( 87,255)	-	( 62,282)	-
Total non-operating income and expenses	466,682	1	4,024,116	5
LOSS BEFORE INCOME TAX	( 16,958,835)	( 27)	( 10,583,948)	( 14)
INCOME TAX BENEFIT (Note 27)	38,476	-	23,845	-
LOSS FOR THE YEAR	( 16,920,359)	( 27)	( 10,560,103)	( 14)

(Continued)

	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME AND LOSS, NET OF INCOME TAX				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans (Note 23)	\$ ( 33,129)	-	\$ ( 53,981)	-
Income tax relating to items that will not be reclassified to profit or loss (Note 27)	4,014	-	6,532	-
	( 29,115)	-	( 47,449)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	( 1,401,328)	( 2)	( 2,254,715)	( 3)
Unrealized gain (loss) on available-for-sale financial assets	131,392	-	( 153,449)	-
	( 1,269,936)	( 2)	( 2,408,164)	( 3)
Other comprehensive loss for the year, net of income tax	( 1,299,051)	( 2)	( 2,455,613)	( 3)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	\$ ( 18,219,410)	( 29)	\$ ( 13,015,716)	( 17)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	\$ ( 16,905,713)	( 27)	\$ ( 10,560,103)	( 14)
Non-controlling interests	( 14,646)	-	-	-
	\$ ( 16,920,359)	( 27)	\$ ( 10,560,103)	( 14)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	\$ ( 18,205,286)	( 29)	\$ ( 13,015,716)	( 17)
Non-controlling interests	\$ ( 14,124)	-	-	-
	\$ ( 18,219,410)	( 29)	( 13,015,716)	( 17)
LOSS PER SHARE (Note 28)				
Basic	\$ ( 20.58)		\$ ( 12.81)	

(Concluded)

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

HTC CORPORATION AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent				Equity Attributable to Owners of the Parent							Non-controlling Interests	Total Equity
	Share Capital		Retained Earnings		Other Equity								
	Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for-sale Financial Assets	Unearned Employee Benefit	Treasury Shares	Total				
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	\$ -	\$ 64,792,095		
Net loss for the year ended December 31, 2016	-	-	-	( 10,560,103)	-	-	-	-	( 10,560,103)	-	( 10,560,103)		
Other comprehensive income and loss for the year ended December 31, 2016	-	-	-	( 47,449)	( 2,254,715)	( 153,449)	-	-	( 2,455,613)	-	( 2,455,613)		
Buy-back of treasury shares	-	-	-	-	-	-	-	( 436,869)	( 436,869)	-	( 436,869)		
Retirement of treasury shares	( 111,600)	( 192,769)	-	( 333,455)	-	-	-	637,824	-	-	-		
Share-based payments	12,992	301,557	-	-	-	-	117,447	-	431,996	-	431,996		
BALANCE, DECEMBER 31, 2016	8,220,087	15,614,641	18,297,655	10,841,425	( 781,298)	( 167,082)	( 253,922)	-	51,771,506	-	51,771,506		
Net loss for the year ended December 31, 2017	-	-	-	( 16,905,713)	-	-	-	-	( 16,905,713)	( 14,646)	( 16,920,359)		
Other comprehensive income and loss for the year ended December 31, 2017	-	-	-	( 29,115)	( 1,401,850)	131,392	-	-	( 1,299,573)	522	( 1,299,051)		
Issuance of stock from exercise of employee stock options	100	445	-	-	-	-	-	-	545	-	545		
Share-based payments	( 11,926)	( 63,595)	-	-	-	-	204,332	-	128,811	-	128,811		
Non-controlling interests	-	-	-	-	-	-	-	-	-	43,676	43,676		
BALANCE, DECEMBER 31, 2017	\$ 8,208,261	\$ 15,551,491	\$ 18,297,655	\$ ( 6,093,403)	\$ ( 2,183,148)	\$ ( 35,690)	\$ ( 49,590)	\$ -	\$ 33,695,576	\$ 29,552	\$ 33,725,128		

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

HTC CORPORATION AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	\$ ( 16,958,835)	\$ ( 10,583,948)
Adjustments for:		
Depreciation expenses	1,006,481	1,752,322
Amortization expenses	1,386,637	1,639,516
Bad debt (reversed) expense	( 362,870)	1,175,179
Finance costs	33,315	5,298
Interests income	( 283,574)	( 382,550)
Dividend income	( 47,284)	( 138,761)
Compensation costs of employee share-based payments	128,811	431,996
Share of the profit or loss of associates and joint venture	87,255	62,282
Net loss (gain) on disposal of property, plant and equipment	80,397	( 3,196,381)
Net gain on sale of investments	( 24,305)	-
Impairment loss on financial assets	109,779	-
Impairment loss on non-financial assets	6,048,636	2,054,453
Changes in operating assets and liabilities		
Decrease in financial instruments held for trading	20,207	48,727
Decrease in trade receivables	7,787,609	2,857,064
Decrease in other receivables	77,814	312,686
Decrease in inventories	1,068,702	2,918,208
Decrease in prepayments	90,513	2,567,469
(Increase) decrease in other current assets	( 67,407)	26,197
Decrease in other non-current assets	396,101	1,993,672
Decrease in note and trade payables	( 11,678,506)	( 3,350,657)
Decrease in other payables	( 6,662,537)	( 6,574,405)
Decrease in provisions	( 7,110)	( 2,607,947)
Decrease in other current liabilities	( 1,595,625)	( 685,331)
Cash used in operations	( 19,365,796)	( 9,674,911)
Interest received	280,246	336,626
Interest paid	( 33,315)	( 5,298)
Income tax return (paid)	109,418	( 275,929)
Net cash used in operating activities	( 19,009,447)	( 9,619,512)

(Continued)

	2017	2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments to acquire debt investment with no active market	\$ -	\$ ( 24,548)
Payments to acquire financial assets measured at cost	( 218,734)	( 203,283)
Proceeds from disposal of financial assets measured at cost	91,107	-
Acquisition of associates	( 6,019)	( 363,754)
Proceeds from disposal of investments accounted for using equity method	-	182,579
Net cash inflow on acquisition of subsidiaries	5,974	-
Payments for non-current assets held for sale	( 3,830)	-
Proceeds from disposal of non-current assets held of sale	-	6,060,000
Payments for property, plant and equipment	( 262,375)	( 601,427)
Proceeds from disposal of property, plant and equipment	17,766	2,935,283
Increase in advance receipts - disposal of property	1,388,243	-
Decrease in refundable deposits	1,362,464	78,862
Payments for intangible assets	( 566)	( 75,455)
Increase in other current financial assets	( 2,237,913)	( 1,650,160)
Dividend received	47,284	83,844
Net cash generated from investing activities	183,401	6,421,941
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Refund of guarantee deposits received	( 16,425)	( 8,053)
Proceeds from exercise of employee stock options	545	-
Buy-back of treasury shares	-	( 436,869)
Net cash used in financing activities	( 15,880)	( 444,922)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	( 795,064)	( 1,624,089)
NET DECREASE IN CASH AND CASH EQUIVALENTS	( 19,636,990)	( 5,266,582)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	30,080,217	35,346,799
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 10,443,227	\$ 30,080,217

(Concluded)

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

HTC CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

**1. ORGANIZATION AND OPERATIONS**

HTC Corporation (HTC) was incorporated on May 15, 1997 under the Company Law of Taiwan, the Republic of China. HTC and its subsidiaries (collectively referred to as the “Group” or the “Company”) are engaged in design, manufacture, assemble, process, 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 Group.

**2. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved by HTC’s Board of Directors and authorized for issue on March 25, 2018.

**3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS****a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting****Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) 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 did 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, please refer to Note 33.

**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.

**1) IFRS 9 “Financial Instruments”****Classification, 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:

- 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;
- For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling 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 gains or losses 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.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss. Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.

Besides this, unlisted shares measured at cost will be measured at fair value instead.

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.

The Company elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets on January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<b>Impact on assets, liabilities and equity</b>			
Financial assets at fair value through profit or loss - current	\$ 65,199	\$ -	\$ 65,199
Financial assets at fair value through other comprehensive income - current	-	312,106	312,106
Financial assets at fair value through profit or loss - non-current	-	131,742	131,742
Financial assets at fair value through other comprehensive income - non-current	-	3,024,657	3,024,657
Available-for-sale financial assets - current	312,106	( 312,106)	-
Available-for-sale financial assets - non-current	91	( 91)	-
Financial assets measured at amortized cost - non-current	3,187,240	( 3,187,240)	-
		\$ ( 30,932)	
Accumulated deficits	( 6,093,403)	\$ 104,732	( 5,988,671)
Other equity	( 2,268,428)	( 135,664)	( 2,404,092)
		\$ ( 30,932)	

### 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.

The Company assessed that the application of IFRS 15 would not have material impact on the Company’s financial position and financial performance except for the above changes of the accounting policies.

### 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. The Company assessed that the application of IFRIC 22 would not have material impact on the Company’s financial position and financial performance.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company assessed that the application of other standards and interpretations would not have material impact on the Company’s financial position and financial performance.

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

- Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.  
 Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.  
 Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.  
 Note 4: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

**1) IFRS 16 “Leases”**

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating 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 consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by FSC.

**Basis of Preparation**

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

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

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

For readers’ convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If inconsistencies arise between the

English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include the English translation of the additional footnote disclosures that are not required under accounting principles and practices generally applied in the Republic of China but are required by the Securities and Futures Bureau for their oversight purposes.

**Classification of Current and Non-current Assets and Liabilities**

Current assets include:

- a. Assets held primarily for trading purposes;
- b. Assets to be realized within twelve months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities are:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

**Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the HTC and the entities controlled by the HTC (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their

accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Changes in the Company’s ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 “Financial Instruments: Recognition and Measurement” or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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

**Business Combinations**

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

### Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

- a. Exchange differences on transactions entered into in order to hedge certain foreign currency risks (please refer to Note 4 "Hedge accounting" section); and
- b. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint venture or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

### Inventories

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

and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

### Investments in Associates and Joint Ventures

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and joint venture. The Company also recognizes the changes in the equity of associates and joint venture attributable to the Company.

When the Company subscribes for additional new shares of the associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint venture. The Company records such a difference as an adjustment to investments accounted for by the equity method, with a corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

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

share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate and a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate and the joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When a group entity transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the associate and the joint venture that are not related to the Company.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment

loss.

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

### Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

### Goodwill

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

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

A cash-generating unit to which goodwill has been

allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### Intangible Assets

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as

intangible assets that are acquired separately.

#### Derecognition of intangible assets

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

### Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through

a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

### Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### Financial assets

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

#### **a. Measurement category**

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

#### **1) Financial assets at fair value through profit or loss (FVTPL)**

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

A financial asset may be designated as at fair value

through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

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

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

## 2) Available-for-sales (AFS) financial assets

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

AFS assets are stated at fair value. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency exchange rates (see below), interest income calculated using the effective interest method and dividends on AFS

equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss that previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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

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

## 3) Loans and receivables

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

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

## b. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the

initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

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

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

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

For all other financial assets, objective evidence of impairment includes significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization and the disappearance of an active market for that financial asset because of financial difficulties.

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

In respect of AFS equity securities, impairment

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

## c. Derecognition of financial assets

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

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

### Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual

arrangements and the definitions of a financial liability and an equity instrument.

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

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

### **Financial liabilities**

#### **a. Subsequent measurement**

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

#### **Financial liabilities at fair value through profit or loss (FVTPL)**

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

A financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss

incorporates any interest and dividend paid on the financial liability. Fair value is determined in the manner described in Note 32.

#### **b. Derecognition of financial liabilities**

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

### **Derivative financial instruments**

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

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

### **Hedge Accounting**

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

### **Fair value hedges**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or

liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting.

### **Cash flow hedges**

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

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

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

### **Provisions**

Provisions, including those arising from contractual obligation specified in service concession arrangement to maintain or restore infrastructure before it is handed over to the grantor, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of

the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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

#### **a. Warranty provisions**

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

#### **b. Provisions for contingent loss on purchase orders**

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

### **Revenue Recognition**

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

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

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

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

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

### **Employee Benefits**

#### **Short-term employee benefits**

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

#### **Retirement benefits**

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

#### **Other long-term employee benefits**

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that remeasurement is recognized in profit or loss.

#### **Termination benefits**

A liability for a termination benefit is recognized at the

earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

### **Share-based Payment Arrangements**

#### **Share-based payment transactions of the Company**

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the share options granted vest immediately.

Restricted shares for employees are recognized as an unearned employ's bonus on the date of grant, with a corresponding increase in capital surplus - restricted shares for employees.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options and capital surplus - restricted shares for employees.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### **a. Current tax**

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year' s tax provision.

#### **b. Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized,

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

#### **c. Current and deferred tax for the year**

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

### **Accrued Marketing Expenses**

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

### **Treasury Share**

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

When the Company's treasury share is retired, the treasury share account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The carrying value of

treasury share in excess of the sum of its par value and premium on stock should first be offset against capital surplus from the same class of treasury share transactions, and the remainder, if any, debited to retained earnings. The sum of the par value and premium on treasury share in excess of its carrying value should be credited to capital surplus from the same class of treasury share transactions.

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

As of December 31, 2017 and 2016, the carrying amounts of accrued marketing and advertising expenses were NT\$5,964,240 thousand and NT\$9,791,579 thousand, respectively.

### b. Allowances for doubtful debts

Receivables are assessed for impairment at the end of each reporting period and considered impaired when there is objective evidence that, as a result of one or

more events that occurred after the initial recognition of the receivables, the estimated future cash flows of the asset have been affected.

As of December 31, 2017 and 2016, the carrying amounts of allowances for doubtful debts were NT\$3,901,541 thousand and NT\$4,187,999 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.

Impairment loss on tangible and intangible assets other than goodwill recognized were NT\$444,972 thousand and NT\$12,595 thousand for the years ended December 31, 2017 and 2016, respectively.

### 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 December 31, 2017 and 2016, the carrying amounts of inventories were NT\$7,381,426 thousand and NT\$14,163,571 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 December 31, 2017 and 2016, the carrying amounts of deferred tax assets were NT\$8,990,648 thousand and NT\$8,957,876 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 December 31, 2017 and 2016, the carrying amounts of warranty provision were NT\$2,795,933 thousand and NT\$3,010,969 thousand, respectively.

## 6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	\$ 1,901	\$ 1,811
Checking accounts and demand deposits	8,502,868	24,722,314

### Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount(In Thousands)	
<u>December 31, 2017</u>					
Foreign exchange contracts	Sell	SGD/USD	2018.01.03	SGD	3,000
Foreign exchange contracts	Sell	JPY/USD	2018.01.10-2018.02.14	JPY	4,100,000
Foreign exchange contracts	Sell	GBP/USD	2018.01.19	GBP	3,000
Foreign exchange contracts	Sell	CAD/USD	2018.01.26	CAD	3,500
Foreign exchange contracts	Sell	EUR/USD	2018.01.10-2018.01.19	EUR	8,000
Foreign exchange contracts	Sell	AUD/USD	2018.02.09	AUD	1,000
Foreign exchange contracts	Buy	RMB/USD	2018.01.12-2018.02.09	RMB	750,648
Foreign exchange contracts	Buy	USD/NTD	2018.01.10-2018.03.14	USD	440,500
Foreign exchange contracts	Buy	JPY/USD	2018.01.19	JPY	2,818,335
Foreign exchange contracts	Buy	EUR/USD	2018.01.19-2018.01.26	EUR	20,000
Foreign exchange contracts	Buy	AUD/USD	2018.02.09	AUD	10,000

(Continued)

	December 31	
	2017	2016
Time deposits (with original maturities less than three months)	<u>1,938,458</u>	<u>5,356,092</u>
	<u>\$ 10,443,227</u>	<u>\$ 30,080,217</u>

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

	December 31	
	2017	2016
Bank balance	0.01%-0.59%	0.01%-0.62%

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
<u>Financial assets held for trading</u>		
Derivatives financial assets (not under hedge accounting)		
Foreign exchange contracts	<u>\$ 65,199</u>	<u>\$ 143,642</u>
<u>Financial liabilities held for trading</u>		
Derivatives financial liabilities (not under hedge accounting)		
Foreign exchange contracts	<u>\$ 75,184</u>	<u>\$ 133,420</u>

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

	Buy/Sell	Currency	Maturity Date	Notional Amount(In Thousands)	
<b>December 31, 2016</b>					
Foreign exchange contracts	Sell	USD/NTD	2017.01.06-2017.01.25	USD	120,000
Foreign exchange contracts	Sell	EUR/USD	2017.01.06	EUR	40,000
Foreign exchange contracts	Sell	JPY/USD	2017.01.06-2017.01.25	JPY	5,085,622
Foreign exchange contracts	Sell	GBP/USD	2017.01.06-2017.01.20	GBP	6,000
Foreign exchange contracts	Buy	RMB/USD	2017.01.06-2017.01.25	RMB	926,817
Foreign exchange contracts	Buy	CAD/USD	2017.01.11-2017.01.25	CAD	5,000
Foreign exchange contracts	Buy	USD/NTD	2017.01.06-2017.02.02	USD	387,500
Foreign exchange contracts	Buy	SGD/USD	2017.01.06-2017.01.25	SGD	252,579
Foreign exchange contracts	Buy	AUD/USD	2017.01.06-2017.01.11	AUD	4,700

(Concluded)

## 8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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.

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

	For the Year Ended December 31	
	2017	2016
Revenues	\$( 4,389)	\$( 40,299)
Other gains and losses	<u>3,538</u>	<u>2,056</u>
	<u>\$( 851)</u>	<u>\$( 38,243)</u>

## 9. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2017	2016
Domestic unlisted equity investment	\$ 626,281	\$ 643,961
Overseas unlisted equity investment	1,779,994	2,013,101
Overseas unlisted mutual funds	649,223	706,674
Derivative financial instruments - convertible bonds	116,226	-
Derivative financial instruments - overseas warrants	<u>15,516</u>	<u>-</u>
	<u>\$ 3,187,240</u>	<u>\$ 3,363,736</u>

(Continued)

	December 31	
	2017	2016
Classified according to financial asset measurement categories		
Financial assets at fair value through profit or loss	\$ 131,742	\$ -
Available-for-sale financial assets	<u>3,055,498</u>	<u>3,363,736</u>
	<u>\$ 3,187,240</u>	<u>\$ 3,363,736</u>

(Concluded)

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

For the year ended December 31, 2017, the Company determined that the recoverable amounts of financial assets measured at cost were less than its carrying amounts, and thus recognized an impairment loss of NT\$109,779 thousand classified as other gains and losses, please refer to Note 26.

## 10. OTHER CURRENT FINANCIAL ASSETS

	December 31	
	2017	2016
Time deposits with original maturities more than three months	<u>\$ 7,988,363</u>	<u>\$ 5,750,450</u>

The market rate intervals of time deposits with original maturities more than three months at the end of the reporting period were as follows:

	December 31	
	2017	2016
Time deposits with original maturities more than three months	1.2%-2.68%	0.7%-2.03%

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

## 11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2017	2016
<b>Trade and overdue receivables</b>		
Trade receivables	\$ 9,023,748	\$ 16,818,037
Trade receivables - related parties	22,400	15,720
Overdue receivables	1,840,947	1,840,947
Less: Allowances for impairment loss	( 509,052)	( 871,922)
Less: Allowances for impairment loss - overdue receivables	<u>( 1,840,947)</u>	<u>( 1,840,947)</u>
	<u>\$ 8,537,096</u>	<u>\$ 15,961,835</u>
Current	\$ 8,537,096	\$ 15,961,835
Non-current	-	-
	<u>\$ 8,537,096</u>	<u>\$ 15,961,835</u>
<b>Other receivables</b>		
Receivables from disposal of investments	\$ 1,326,104	\$ 1,260,795
Interest receivables	248,786	234,355
VAT refund receivables	38,350	113,839
Others	41,799	34,667
Less: Allowances for impairment loss	<u>( 1,551,542)</u>	<u>( 1,475,130)</u>
	<u>\$ 103,497</u>	<u>\$ 168,526</u>
Current - other receivables	\$ 103,497	\$ 168,526
Non-current - other receivables	-	-
	<u>\$ 103,497</u>	<u>\$ 168,526</u>

### 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 except for single major customer. The Company will evaluate the level of credit risk periodically and reconcile the receivables in order to control the credit condition of the single major customer.

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

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

### Aging of trade receivables

	December 31	
	2017	2016
1-90 days	\$ 244,443	\$ 2,120,237
91-180 days	63,613	445,727
Over 181 days	<u>340,280</u>	<u>323,945</u>
	<u>\$ 648,336</u>	<u>\$ 2,889,909</u>

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

### Aging of impaired trade receivables

	December 31	
	2017	2016
1-90 days	\$ 139,284	\$ 1,887,581
91-180 days	-	130,406
Over 181 days	<u>-</u>	<u>-</u>
	<u>\$ 139,284</u>	<u>\$ 2,017,987</u>

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

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

#### **Movement in the allowances for doubtful debts**

	For the Year Ended December 31	
	2017	2016
Balance, beginning of the year	\$ 2,712,869	\$ 3,016,914
Less: Impairment loss reversed	( 362,870)	( 299,951)
Less: Amounts written off during the year as uncollectable	-	( 4,025)
Less: Effect of foreign currency exchange differences	-	( 69)
Balance, end of the year	<u>\$ 2,349,999</u>	<u>\$ 2,712,869</u>

#### **Other Receivables**

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

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

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

	For the Year Ended December 31	
	2017	2016
Balance, beginning of year	\$ 1,475,130	\$ -
Add: Impairment loss recognized	-	1,475,130
Add: Effect of foreign currency exchange differences	76,412	-
Balance, end of year	<u>\$ 1,551,542</u>	<u>\$ 1,475,130</u>

#### **12. INVENTORIES**

	December 31	
	2017	2016
Finished goods	\$ 1,602,962	\$ 2,468,223
Work-in-process	124,318	233,952
Semi-finished goods	1,094,183	2,168,606
Raw materials	4,403,010	9,125,604
Inventory in transit	156,953	167,186
	<u>\$ 7,381,426</u>	<u>\$ 14,163,571</u>

The cost of inventories recognized as operation costs for the years ended December 31, 2017 and 2016 included inventory write-downs of NT\$5,713,443 thousand and NT\$2,041,858 thousand, respectively.

#### **13. PREPAYMENTS**

	December 31	
	2017	2016
Royalty	\$ 2,633,750	\$ 3,109,677
Net input VAT	480,516	727,750
Prepaid equipment	52,744	75,954
Prepayments to suppliers	9,422	17,431
Land use right	-	107,732
Others	800,287	530,831
	<u>\$ 3,976,719</u>	<u>\$ 4,569,375</u>
Current	\$ 1,742,986	\$ 1,833,499
Non-current	2,233,733	2,735,876
	<u>\$ 3,976,719</u>	<u>\$ 4,569,375</u>

Prepayments for royalty were primarily for getting royalty right and were classified as current or non-current in accordance with their nature. For details of content of contracts, please refer to Note 38.

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**

	December 31	
	2017	2016
Land and buildings held for sale	<u>\$ 1,647,763</u>	<u>\$ -</u>

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

On March 15, 2017, the HTC' Board of Directors passed a resolution to sell land and factory in Shanghai to Shanghai Xingbao Information Technology Co., Ltd. with an amount of RMB630,000 thousand. The trading amount of RMB315,000 thousand has been collected and recognized

as advance receipts. While the transferring process has not yet been completed, the assets was recognized as non-current assets held for sale without impairment loss valued as of December 31, 2017.

#### **15. SUBSIDIARIES**

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

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

Investor	Investee	Main Businesses	% of Ownership		Remark
			2017	2016	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company and general investing activities	100.00	100.00	-
	Communication Global Certification Inc.	Import of controlled telecommunications radio-frequency devices and software services	100.00	100.00	-
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC Investment Corporation	General investing activities	100.00	100.00	-
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales services	1.00	1.00	-
	HTC I Investment Corporation	General investing activities	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	0.01	0.01	-
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	-
	HTC Investment (BVI) Corporation	General investing activities	100.00	100.00	-
	HTC VIVE Holding (BVI) Corp.	International holding company	100.00	100.00	-
	HTC VIVE Investment (BVI) Corp.	General investing activities	100.00	100.00	-
	DeepQ Holding (BVI) Corp.	International holding company	100.00	-	1)
	HTC VR Content (BVI) Corp.	"	100.00	-	3)
	HTC Smartphone (BVI) Corp.	"	100.00	-	3)
H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	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	-
	HTC Philippines Corporation	"	99.99	99.99	-
	PT. High Tech Computer Indonesia	"	99.00	99.00	-
	HTC (Thailand) Limited	"	100.00	100.00	-
	HTC India Private Ltd.	"	99.00	99.00	-
	HTC Malaysia Sdn. Bhd.	"	100.00	100.00	-
	HTC Communication Co., Ltd.	Manufacture and sale of smart mobile devices and after-sales services	100.00	100.00	-
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			December 31		
			2017	2016	
High Tech Computer Asia Pacific Pte. Ltd.	HTC Holding Cooperatief U.A.	International holding company	99.99	99.99	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	-
	HTC Vietnam Services One Member Limited Liability Company	Marketing, repair and after-sales services	100.00	100.00	-
	HTC Myanmar Company Limited	"	99.00	99.00	-
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	100.00	100.00	-
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	-
HTC Communication Technologies (SH)	HTC Communication (BJ) Tech Co.	Design, research and development of application software	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	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	-
	HTC Myanmar Company Limited	Marketing, repair and after-sales services	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	-
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	-
	HTC South Eastern Europe Limited Liability Company	"	0.67	0.67	-
	HTC Communication Solutions Mexico, S.A DE CV.	"	1.00	1.00	-
	HTC Servicios DE Operacion Mexico, S.A DE CV.	Human resources management	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	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	-
	HTC Belgium BVBA/SPRL	"	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	-
	HTC Nordic ApS.	"	100.00	100.00	-
	HTC Italia SRL	"	100.00	100.00	-
	HTC Germany GmbH	"	100.00	100.00	-
	HTC Iberia, S.L.	"	100.00	100.00	-
	HTC Poland sp. z.o.o.	"	100.00	100.00	-
	HTC Communication Canada, Ltd.	"	100.00	100.00	-
	HTC Communication Sweden AB	"	100.00	100.00	-
	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			December 31		
			2017	2016	
HTC Netherlands B.V.	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	-
	HTC Communication Solutions Mexico, S.A DE CV.	"	99.00	99.00	-
	HTC Servicios DE Operacion Mexico, S.A DE CV.	Human resources management	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	-
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	-
HTC America Holding Inc.	HTC America Inc.	Sale of smart mobile devices	100.00	100.00	-
	One & Company Design, Inc.	Design, research and development of application software	100.00	100.00	-
	HTC America Innovation Inc.	"	100.00	100.00	-
	HTC America Content Services, Inc.	Online/download media services	100.00	100.00	-
	Dashwire, Inc.	Design and management of cloud synchronization technology	100.00	100.00	-
	Inquisitive Minds, Inc.	Development and sale of digital education platform	100.00	100.00	-
HTC VIVE Holding (BVI) Corp.	HTC VIVE TECH (BVI) Corp.	International holding company	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	-
	HTC VIVE TECH (HK) Limited	"	100.00	-	2)
HTC VIVE TECH (HK) Limited	HTC VIVE TECH (UK) Limited	Research, development and sale of virtual reality devices	100.00	-	2)
	HTC VIVE TECH (Beijing)	"	100.00	-	2)
DeepQ Holding (BVI) Corp.	DeepQ (BVI) Corp.	International holding company	100.00	-	1)
DeepQ (BVI) Corp.	DeepQ Technology Corp.	Medical technology and health care	100.00	-	2)
HTC Investment (BVI) Corporation	VRChat, Inc.	Development of virtual reality contents	53.16	-	4)
VRChat, Inc.	VRChat Ca. Development Inc.	Development of virtual reality contents	100.00	-	4)
HTC VR Content (BVI) Corp.	Uomo Vitruviano Corp.	Development of virtual reality contents	100.00	-	3)

(Concluded)

## Remark:

- 1) DeepQ Holding (BVI) Corp. and DeepQ (BVI) Corp. were incorporated in March 2017.
- 2) HTC VIVE TECH (Beijing), HTC VIVE TECH (HK) Limited, HTC VIVE TECH (UK) Limited and DeepQ Technology Corp. were incorporated in June 2017.
- 3) HTC VR Content (BVI) Corp, HTC Smartphone (BVI) Corp. and Uomo Vitruviano Corp. were incorporated in September 2017.
- 4) In August 2017, VRChat, Inc. and its subsidiary were included in consolidated financial statements for acquiring 53.16% equity interest by the Company. For details of the acquisition, please see Note 29.

**b. Subsidiary excluded from consolidated financial statements: None.**

**c. Details of subsidiaries that have material non-controlling interests: None.**

**16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

	December 31	
	2017	2016
Investment in associates	\$ 413,120	\$ 531,445
Investment in joint ventures	-	-
	<u>\$ 413,120</u>	<u>\$ 531,445</u>

**Investments in Associates**

	December 31	
	2017	2016
<b>Unlisted equity investments</b>		
East West Artists, LLC	\$ 26,834	\$ 25,532
Steel Wool Games, Inc.	99,921	150,282
Surgical Theater, LLC	274,864	344,080
Gui Zhou Wei Ai Educational Technology Co., Ltd.	<u>11,501</u>	<u>11,551</u>
	<u>\$ 413,120</u>	<u>\$ 531,445</u>

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

Name of Associates	December 31	
	2017	2016
East West Artist, LLC	30.00%	25.00%
Steel Wool Games, Inc.	49.00%	49.00%
Surgical Theater, LLC	16.68%	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 May 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. In August 2017, the equity interest was decreased to 16.68% after the capital increase. The Company's management evaluates that the Company does exercise significant influence over Surgical Theater, LLC and therefore the subject equity investments are classified as an associate of the Company.

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 Year Ended December 31	
	2017	2016
The Company's share of:		
Loss from continuing operations	\$ ( 87,255)	\$ ( 36,549)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>\$ ( 87,255)</u>	<u>\$ ( 36,549)</u>

Investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been audited. 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 audited.

**Investments in Joint Venture**

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 ventures that are not individually material:

	For the Year Ended December 31	
	2017	2016
The Company's share of:		
Loss from continuing operations	\$ -	\$ ( 25,733)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>\$ -</u>	<u>\$ ( 25,733)</u>

Investments in joint ventures accounted for under 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 audited. 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 audited.

**17. PROPERTY, PLANT AND EQUIPMENT**

	December 31	
	2017	2016
Carrying amounts		
Land	\$ 4,676,726	\$ 4,674,792
Buildings	5,260,727	5,473,812
Machinery and equipment	417,379	1,267,842
Other equipment	<u>443,781</u>	<u>609,050</u>
	<u>\$ 10,798,613</u>	<u>\$ 12,025,496</u>

Movements of property, plant and equipment for the years ended December 31, 2017 and 2016 were as follows:

	2017				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<b>Cost</b>					
Balance, beginning of the year	\$ 4,674,792	\$ 7,321,116	\$ 13,614,889	\$ 2,301,452	\$ 27,912,249
Additions	-	54,833	128,364	65,462	248,659
Disposals	-	-	( 743,914)	( 114,964)	( 858,878)
Reclassification	-	-	( 59,186)	-	( 59,186)
Effect of foreign currency exchange differences	<u>1,934</u>	<u>7,083</u>	<u>( 38,345)</u>	<u>( 32,607)</u>	<u>( 61,935)</u>
Balance, end of the year	<u>4,676,726</u>	<u>7,383,032</u>	<u>12,901,808</u>	<u>2,219,343</u>	<u>27,180,909</u>
<b>Accumulated depreciation</b>					
Balance, beginning of the year	-	1,847,304	11,816,261	1,686,963	15,350,528
Depreciation expenses	-	273,928	535,827	190,790	1,000,545
Disposals	-	-	( 659,429)	( 100,452)	( 759,881)
Reclassification	-	-	( 21,013)	-	( 21,013)
Effect of foreign currency exchange differences	-	<u>1,073</u>	<u>( 30,964)</u>	<u>( 19,425)</u>	<u>( 49,316)</u>
Balance, end of the year	-	<u>2,122,305</u>	<u>11,640,682</u>	<u>1,757,876</u>	<u>15,520,863</u>
<b>Accumulated impairment</b>					
Balance, beginning of the year	-	-	530,786	5,439	536,225
Impairment loss	-	-	321,138	14,055	335,193
Disposals	-	-	( 831)	( 3)	( 834)
Reclassification	-	-	( 7,868)	-	( 7,868)
Effect of foreign currency exchange differences	-	-	<u>522</u>	<u>( 1,805)</u>	<u>( 1,283)</u>
Balance, end of the year	-	-	<u>843,747</u>	<u>17,686</u>	<u>861,433</u>
Net book value, end of the year	<u>\$ 4,676,726</u>	<u>\$ 5,260,727</u>	<u>\$ 417,379</u>	<u>\$ 443,781</u>	<u>\$ 10,798,613</u>

	2016				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<b>Cost</b>					
Balance, beginning of the year	\$ 6,470,507	\$ 7,361,368	\$ 13,754,405	\$ 2,507,338	\$ 30,093,618
Additions	-	272,689	158,495	122,854	554,038
Disposals	( 1,771,623)	-	( 33,902)	( 251,263)	( 2,056,788)
Reclassification	6,587	( 201,433)	( 11,100)	( 1,173)	( 207,119)
Effect of foreign currency exchange differences	( 30,679)	( 111,508)	( 253,009)	( 76,304)	( 471,500)
Balance, end of the year	<u>4,674,792</u>	<u>7,321,116</u>	<u>13,614,889</u>	<u>2,301,452</u>	<u>27,912,249</u>
<b>Accumulated depreciation</b>					
Balance, beginning of the year	-	1,590,155	10,912,770	1,634,316	14,137,241
Depreciation expenses	-	269,208	1,134,773	304,421	1,708,402
Disposals	-	-	( 27,075)	( 199,217)	( 226,292)
Reclassification	-	-	( 6,443)	( 547)	( 6,990)
Effect of foreign currency exchange differences	-	( 12,059)	( 197,764)	( 52,010)	( 261,833)
Balance, end of the year	<u>-</u>	<u>1,847,304</u>	<u>11,816,261</u>	<u>1,686,963</u>	<u>15,350,528</u>
<b>Accumulated impairment</b>					
Balance, beginning of the year	-	-	520,963	3,284	524,247
Impairment loss	-	-	10,330	2,265	12,595
Effect of foreign currency exchange differences	-	-	( 507)	( 110)	( 617)
Balance, end of the year	<u>-</u>	<u>-</u>	<u>530,786</u>	<u>5,439</u>	<u>536,225</u>
Net book value, end of the year	<u>\$ 4,674,792</u>	<u>\$ 5,473,812</u>	<u>\$ 1,267,842</u>	<u>\$ 609,050</u>	<u>\$ 12,025,496</u>

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. For the years ended December 31, 2017 and 2016, the Company determined that the carrying amounts of some of equipment were expected to be unrecoverable, and thus recognized an impairment loss of NT\$335,193 thousand and NT\$12,595 thousand classified as other gains and losses, respectively. Please refer to Note 26 for details.

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

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

The major component parts of the buildings held by the Company included plants, electro-powering machinery and engineering systems, etc., which are 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 years ended December 31, 2017 and 2016.

## 18. INVESTMENT PROPERTIES, NET

Movement of investment properties, net for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
<b>Cost</b>		
Balance, beginning of the year	\$ 1,829,827	\$ 1,992,798
Eliminations	( 1,504)	-
Reclassification	( 1,791,715)	-
Effect of foreign currency exchange differences	( 36,608)	( 162,971)
Balance, end of the year	<u>-</u>	<u>1,829,827</u>
<b>Accumulated depreciation</b>		
Balance, beginning of the year	302,826	284,309
Depreciation expense	5,936	43,920
Eliminations	( 1,504)	-
Reclassification	( 301,200)	-
Effect of foreign currency exchange differences	( 6,058)	( 25,403)
Balance, end of the year	<u>-</u>	<u>302,826</u>
Net book value, end of the year	<u>\$ -</u>	<u>\$ 1,527,001</u>

The investment properties are 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 December 31, 2017, the investment properties were reclassified as non-current assets held for sale since the transferring process has not yet been completed. For the detail, please refer to Note 14.

Movements of intangible assets for the years ended December 31, 2017 and 2016 were as follows:

	2017			
	Patents	Goodwill	Other Intangible Assets	Total
<b>Cost</b>				
Balance, beginning of the year	\$ 12,197,140	\$ 684,668	\$ 1,840,154	\$ 14,721,962
Additions	-	69,186	566	69,752
Eliminations	-	-	( 7,093)	( 7,093)
Disposals	-	-	( 38,977)	( 38,977)
Effect of foreign currency exchange differences	( 729,150)	( 40,604)	( 41,030)	( 810,784)
Balance, end of the year	<u>11,467,990</u>	<u>713,250</u>	<u>1,753,620</u>	<u>13,934,860</u>
<b>Accumulated amortization</b>				
Balance, beginning of the year	8,538,904	-	1,333,403	9,872,307
Amortization expenses	1,148,841	-	237,796	1,386,637
Eliminations	-	-	( 7,093)	( 7,093)
Disposals	-	-	( 38,977)	( 38,977)
Effect of foreign currency exchange differences	( 485,827)	-	( 27,265)	( 513,092)
Balance, end of the year	<u>9,201,918</u>	<u>-</u>	<u>1,497,864</u>	<u>10,699,782</u>
<b>Accumulated impairment</b>				
Balance, beginning of the year	111,085	684,668	175,546	971,299
Effect of foreign currency exchange differences	-	( 38,443)	( 13,219)	( 51,662)
Balance, end of the year	<u>111,085</u>	<u>646,225</u>	<u>162,327</u>	<u>919,637</u>
Net book value, end of the year	<u>\$ 2,154,987</u>	<u>\$ 67,025</u>	<u>\$ 93,429</u>	<u>\$ 2,315,441</u>

	2016			
	Patents	Goodwill	Other Intangible Assets	Total
<b>Cost</b>				
Balance, beginning of the year	\$ 12,434,890	\$ 697,203	\$ 1,785,537	\$ 14,917,630
Additions	-	-	75,455	75,455
Effect of foreign currency exchange differences	( 237,750)	( 12,535)	( 20,838)	( 271,123)
Balance, end of the year	<u>12,197,140</u>	<u>684,668</u>	<u>1,840,154</u>	<u>14,721,962</u>
<b>Accumulated amortization</b>				
Balance, beginning of the year	7,336,883	-	1,031,158	8,368,041
Amortization expenses	1,325,086	-	314,430	1,639,516
Effect of foreign currency exchange differences	( 123,065)	-	( 12,185)	( 135,250)
Balance, end of the year	<u>8,538,904</u>	<u>-</u>	<u>1,333,403</u>	<u>9,872,307</u>

(Continued)

## 19. INTANGIBLE ASSETS

	December 31	
	2017	2016
<b>Carrying amounts</b>		
Patents	\$ 2,154,987	\$ 3,547,151
Goodwill	67,025	-
Other intangible assets	<u>93,429</u>	<u>331,205</u>
	<u>\$ 2,315,441</u>	<u>\$ 3,878,356</u>

	2016			
	Patents	Goodwill	Other Intangible Assets	Total
<b>Accumulated impairment</b>				
Balance, beginning of the year	\$ 111,085	\$ 697,203	\$ 179,857	\$ 988,145
Effect of foreign currency exchange differences	-	( 12,535)	( 4,311)	( 16,846)
Balance, end of the year	<u>111,085</u>	<u>684,668</u>	<u>175,546</u>	<u>971,299</u>
Net book value, end of the year	<u>\$ 3,547,151</u>	<u>\$ -</u>	<u>\$ 331,205</u>	<u>\$ 3,878,356</u>

(Concluded)

The Company owns patents of graphics technologies. As of December 31, 2017 and 2016, the carrying amounts of such patents were NT\$2,144,678 thousand and NT\$3,529,477 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

## 20. NOTE AND TRADE PAYABLES

	December 31	
	2016	2016
Note payables	\$ 27	\$ 580
Trade payables	14,568,235	26,245,282
Trade payables - related parties	<u>960</u>	<u>1,866</u>
	<u>\$ 14,569,222</u>	<u>\$ 26,247,728</u>

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

## 21. OTHER LIABILITIES

	December 31	
	2017	2016
<b>Other payables</b>		
Accrued expenses	\$ 11,624,987	\$ 18,254,905
Payables for purchase of equipment	<u>56,903</u>	<u>93,829</u>
	<u>\$ 11,681,890</u>	<u>\$ 18,348,734</u>
<b>Other current liabilities</b>		
Advance receipts (Note 14)	\$ 2,480,454	\$ 2,397,707
Agency receipts	132,387	434,266
Others	<u>237,872</u>	<u>172,459</u>
	<u>\$ 2,850,713</u>	<u>\$ 3,004,432</u>

## Accrued Expenses

	December 31	
	2017	2016
Marketing	\$ 5,964,240	\$ 9,791,579
Salaries and bonuses	2,004,912	2,029,695
Materials and molding expenses	1,796,104	3,077,500
Services	766,310	1,196,062
Import, export and freight	181,885	651,893
Insurance	111,477	137,183
Repairs, maintenance and sundry purchase	76,785	98,773
Others	<u>723,274</u>	<u>1,272,220</u>
	<u>\$ 11,624,987</u>	<u>\$ 18,254,905</u>

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

## 22. PROVISIONS

	December 31	
	2017	2016
Warranties	\$ 2,795,933	\$ 3,010,969
Provisions for contingent loss on purchase orders	<u>581,268</u>	<u>373,342</u>
	<u>\$ 3,377,201</u>	<u>\$ 3,384,311</u>

Movement of provisions for the years ended December 31, 2017 and 2016 were as follows:

	2017		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	\$ 3,010,969	\$ 373,342	\$ 3,384,311
Provisions recognized	3,065,641	274,159	3,339,800
Usage	( 3,268,216)	( 66,233)	( 3,334,449)
Effect of foreign currency exchange differences	<u>( 12,461)</u>	<u>-</u>	<u>( 12,461)</u>
Balance, end of the year	<u>\$ 2,795,933</u>	<u>\$ 581,268</u>	<u>\$ 3,377,201</u>

	2016		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	\$ 5,314,365	\$ 677,893	\$ 5,992,258
Provisions recognized (reversed)	3,987,729	( 271,104)	3,716,625
Usage	( 6,256,239)	( 33,447)	( 6,289,686)
Effect of foreign currency exchange differences	<u>( 34,886)</u>	<u>-</u>	<u>( 34,886)</u>
Balance, end of the year	<u>\$ 3,010,969</u>	<u>\$ 373,342</u>	<u>\$ 3,384,311</u>

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

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

## 23. RETIREMENT BENEFIT PLANS

### Defined Contribution Plans

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, HTC, Communication Global Certification Inc. ("CGC") and Yoda Co., Ltd. ("Yoda") make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The Company has defined benefit plans for all qualified employees of HTC, CGC and Yoda in Taiwan. Besides, the employees of the Company's subsidiary are members of a state-managed retirement benefit plan operated by local government. The subsidiary is required to contribute amounts calculated at a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect

to the retirement benefit plan is to make the specified contributions to the fund.

The total expenses recognized in the consolidated statement of comprehensive income were NT\$420,872 thousand and NT\$463,504 thousand, representing the contributions made and to be made to these plans by the Company at the rates specified in the plans for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the amounts of contributions payable were NT\$76,426 thousand and NT\$80,218 thousand, respectively, the amounts were paid subsequent to the end of the reporting period.

### Defined Benefit Plans

The defined benefit plan adopted by HTC and CGC in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated based on the years of services and the average monthly salaries of the six months before retirement. HTC and CGC contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, HTC and CGC assess the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, HTC and CGC are required to fund the difference in one appropriation that should be made before the end of March of the following year. The

pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); HTC and CGC has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the obligation on HTC and CGC under the defined benefit plans were as follows:

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ ( 581,492)	\$ ( 533,819)
Fair value of plan assets	<u>599,611</u>	<u>574,258</u>
Net defined benefit asset	<u>\$ 18,119</u>	<u>\$ 40,439</u>

Movements in net defined benefit asset were as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Asset
Balance at January 1, 2016	\$ ( 474,875)	\$ 554,345	\$ 79,470
Current service cost	( 8,751)	-	( 8,751)
Net interest (expense) income	<u>( 8,301)</u>	<u>10,002</u>	<u>1,701</u>
Recognized in profit or loss	<u>( 17,052)</u>	<u>10,002</u>	<u>( 7,050)</u>
Remeasurement			
Return on plan assets	-	( 6,014)	( 6,014)
Actuarial loss - changes in demographic assumptions	( 20,172)	-	( 20,172)
Actuarial loss - changes in financial assumptions	( 18,622)	-	( 18,622)
Actuarial loss - experience adjustments	<u>( 9,173)</u>	<u>-</u>	<u>( 9,173)</u>
Recognized in other comprehensive income	<u>( 47,967)</u>	<u>( 6,014)</u>	<u>( 53,981)</u>
Contributions from the employer	-	22,000	22,000
Benefits paid	<u>6,075</u>	<u>( 6,075)</u>	<u>-</u>
Balance at December 31, 2016	<u>( 533,819)</u>	<u>574,258</u>	<u>40,439</u>
Current service cost	( 11,492)	-	( 11,492)
Net interest (expense) income	<u>( 7,990)</u>	<u>8,765</u>	<u>775</u>
Recognized in profit or loss	<u>( 19,482)</u>	<u>8,765</u>	<u>( 10,717)</u>
Remeasurement			
Return on plan assets	-	( 3,105)	( 3,105)
Actuarial loss - changes in demographic assumptions	( 59,687)	-	( 59,687)
Actuarial gain - changes in financial assumptions	164	-	164
Actuarial gain - experience adjustments	<u>29,499</u>	<u>-</u>	<u>29,499</u>
Recognized in other comprehensive income	<u>( 30,024)</u>	<u>( 3,105)</u>	<u>( 33,129)</u>
Contributions from the employer	-	21,526	21,526
Benefits paid	<u>1,833</u>	<u>( 1,833)</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ ( 581,492)</u>	<u>\$ 599,611</u>	<u>\$ 18,119</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans was as follows:

	December 31	
	2017	2016
Operating costs	\$ 2,188	\$ 1,566
Selling and marketing expenses	957	671
General and administrative expenses	1,435	854
Research and development expenses	<u>6,137</u>	<u>3,959</u>
	<u>\$ 10,717</u>	<u>\$ 7,050</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- Interest risk: A decrease in the government/corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan’s debt investments.
- Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2017	2016
Discount rates	1.375%-1.500%	1.000%-1.500%
Expected rates of salary increase	2.250%-4.000%	2.250%-4.000%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would (increase) decrease as follows:

	December 31	
	2017	2016
Discount rates		
0.25% increase	<u>\$ 20,801</u>	<u>\$ 19,120</u>
0.25% decrease	<u>\$ ( 21,787)</u>	<u>\$ ( 20,030)</u>
Expected rates of salary increase		
0.25% increase	<u>\$ ( 20,965)</u>	<u>\$ ( 19,268)</u>
0.25% decrease	<u>\$ 20,965</u>	<u>\$ 18,504</u>

The sensitivity analysis presented above may not be

representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 20,675</u>	<u>\$ 21,766</u>
The average duration of the defined benefit obligation	14.98 years	15.23 years

## 24. EQUITY

### Share Capital

#### a. Ordinary shares

	December 31	
	2017	2016
Number of shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>
Shares authorized	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Number of shares issued and fully paid (in thousands of shares)	<u>820,826</u>	<u>822,009</u>
Shares issued	<u>\$ 8,208,261</u>	<u>\$ 8,220,087</u>

In July 2016, HTC issued 2,657 thousand of restricted shares amounting to NT\$26,570 thousand. For the year ended in 2016, HTC retired 1,358 thousand restricted shares for employees amounting to NT\$13,578 thousand. In February and August 2016, HTC retired 4,110 thousand and 7,050 thousand treasury shares amounting to NT\$41,100 thousand and NT\$70,500 thousand, respectively. As a result, the amount of HTC’s outstanding ordinary shares as of December 31, 2016 decreased to NT\$8,220,087 thousand, divided into 822,009 thousand ordinary shares at NT\$10 par value. Every ordinary share carries one vote per share and a right to dividends.

For the year ended 2017, HTC retired 1,193 thousand restricted shares for employees amounting to NT\$11,926 thousand. In October 2017, the employee stock options have been exercised by issuing 10 thousand shares amounting to NT\$100 thousand. As a result, HTC’s issued and outstanding common stock as of December 31, 2017 decreased to NT\$8,208,261

thousand, divided into 820,826 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 shareholders, including Via Technologies, Inc., also issued 12,878.4 thousand ordinary shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of 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 December 31, 2017, there were 5,793 thousand units of GDRs redeemed, representing 23,171.9 thousand ordinary shares, and the outstanding GDRs represented 12,888.6 thousand ordinary shares or 1.57% of HTC's issued and outstanding ordinary shares.

#### Capital Surplus

	December 31	
	2017	2016
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Arising from issuance of ordinary shares	\$ 14,659,563	\$ 14,121,223
Arising from consolidation excess	23,288	23,288
Arising from expired stock options	186,052	84,462
<u>May not be used for any purpose</u>		
Arising from employee share options	572,369	645,111
Arising from employee restricted shares	<u>110,219</u>	<u>740,557</u>
	<u>\$ 15,551,491</u>	<u>\$ 15,614,641</u>

The capital surplus arising from shares issued in excess of par (including share premium from issuance of ordinary shares, treasury share transactions, consolidation excess and expired stock options) and donations may be used to offset a deficit; in addition, when the Company has no

deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

In February and August 2016, the retirement of treasury shares caused a decrease of NT\$70,715 thousand and NT\$120,988 thousand in additional paid-in capital - issuance of ordinary shares, NT\$117 thousand and NT\$199 thousand in capital surplus - consolidation excess and NT\$177 thousand and NT\$573 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 and NT\$244,609 thousand, respectively.

For details of capital surplus - employee share options and employee restricted shares, please see Note 30.

#### Retained Earnings and Dividend Policy

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

- To pay taxes.
- To cover accumulated losses, if any.
- To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of HTC's authorized capital.
- To recognize or reverse special reserve return earnings.
- 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 appropriation of profit or loss for 2016 and 2015 had been resolved in the shareholders' meeting on June 15, 2017 and June 24, 2016, respectively.

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

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

#### Other Equity

	December 31	
	2017	2016
Exchange differences on translating foreign operations	\$ ( 2,183,148)	\$ ( 781,298)
Unrealized loss on available-for-sale financial assets	( 35,690)	( 167,082)
Unearned employee benefit	<u>( 49,590)</u>	<u>( 253,922)</u>
	<u>\$ ( 2,268,428)</u>	<u>\$ ( 1,202,302)</u>

#### a. Exchange differences on translating foreign operations

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (New Taiwan dollars) were recognized directly in other

comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of the foreign operation.

#### b. Unrealized gains or losses on available-for-sale financial assets

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

#### c. 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 30 for the information of restricted shares issued.

	For the Year Ended December 31	
	2017	2016
Balance, beginning of the year	\$ ( 253,922)	\$ ( 371,369)
Issuance of shares	-	( 158,471)
Adjustment of turnover rate	104,517	( 5,667)
Share-based payment expenses recognized	<u>99,815</u>	<u>281,585</u>
Balance, end of the year	<u>\$ ( 49,590)</u>	<u>\$ ( 253,922)</u>

#### Treasury Shares

On August 24, 2015, the 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 the 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 the HTC's Board of Directors on February 29, 2016, and such retired shares had been properly deregistered subsequently.

On May 14, 2016, the HTC's Board of Directors passed a resolution to buy back 40,000 thousand common 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 HTC's share price was lower than this price range, HTC might continue to buy back its shares. HTC had bought back 7,050 thousand shares for NT\$436,869 thousand during the repurchase period which were retired by the HTC's Board of Directors on August 2, 2016, and such retired share had been properly deregistered subsequently. The related information on the treasury share transactions were as follows:

Reason to Reacquire	(In Thousands of Shares)			
	Number of Shares, Beginning of the Year	Addition During the Year	Reduction During the Year	Number of Shares, End of the Year
<b>For 2016</b>				
To maintain the Company's credibility and shareholders' interest	4,110	7,050	11,160	-

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 Year Ended December 31	
	2017	2016
Sale of goods	\$ 59,593,708	\$ 75,763,805
Other operating income	<u>2,526,106</u>	<u>2,397,353</u>
	<u>\$ 62,119,814</u>	<u>\$ 78,161,158</u>

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT\$(4,389) thousand and NT\$(40,299) thousand of the gain or loss on the hedging instrument that was determined to be the effective portion of the hedge to sales of goods for the years ended in 2017 and 2016, respectively.

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

### a. Other income

	For the Year Ended December 31	
	2017	2016
Interest income		
Bank deposits	\$ 256,064	\$ 224,331
Other receivables	-	39,041
Other	<u>27,510</u>	<u>119,178</u>
	283,574	382,550
Dividends	47,284	138,761
Others	<u>342,245</u>	<u>121,767</u>
	<u>\$ 673,103</u>	<u>\$ 643,078</u>

### b. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Net foreign exchange gain	\$ 448,977	\$ 335,783
Gain on disposal of investments	24,305	-
Ineffective portion of cash flow hedge (Note 8)	3,538	2,056
Net gain on disposal of non-current assets held for sale (Note 14)	-	2,091,594
Net (loss) gain arising from financial instruments classified as held for trading	( 9,985)	10,222
Net (loss) gain on disposal of property, plant and equipment (Note 17)	( 80,397)	1,104,787

(Continued)

	For the Year Ended December 31	
	2017	2016
Impairment loss	( 444,972)	( 12,595)
Other loss	<u>( 27,317)</u>	<u>( 83,229)</u>
	<u>\$ ( 85,851)</u>	<u>\$ 3,448,618</u>

(Concluded)

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 Year Ended December 31	
	2017	2016
Trade receivables (included in operating expense)	\$ ( 362,870)	\$ ( 299,951)
Other receivables (included in operating expense)	-	1,475,130
Financial assets measured at cost - non-current (included in other gains and losses)	<u>109,779</u>	-
	<u>\$ ( 253,091)</u>	<u>\$ 1,175,179</u>

### d. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 1,000,545	\$ 1,708,402
Investment properties	5,936	43,920
Intangible assets	<u>1,386,637</u>	<u>1,639,516</u>
	<u>2,393,118</u>	<u>3,391,838</u>
An analysis of depreciation - by function		
Operating costs	\$ 284,026	\$ 743,267
Operating expenses	716,519	965,135
Other loss	<u>5,936</u>	<u>43,920</u>
	<u>1,006,481</u>	<u>1,752,322</u>
An analysis of amortization - by function		
Operating costs	\$ 1,498	\$ 2,958
Operating expenses	<u>1,385,139</u>	<u>1,636,558</u>
	<u>\$ 1,386,637</u>	<u>\$ 1,639,516</u>

### e. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term benefits	\$ 11,264,101	\$ 11,548,402
Post-employment benefits (Note 23)		
Defined contribution plans	420,872	463,504
Defined benefit plans	<u>10,717</u>	<u>7,050</u>
	<u>431,589</u>	<u>470,554</u>
Share-based payments (Note 30)		
Equity-settled share-based payments	<u>128,811</u>	<u>431,996</u>
Total employee benefits expense	<u>\$ 11,824,501</u>	<u>\$ 12,450,952</u>
An analysis of employee benefits expense - by function		
Operating costs	\$ 2,558,357	\$ 2,977,269
Operating expenses	<u>9,266,144</u>	<u>9,473,683</u>
	<u>\$ 11,824,501</u>	<u>\$ 12,450,952</u>

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

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

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



**e. Amounts of deductible temporary differences, unused carryforward and unused tax credits for which deferred tax assets have not been recognized**

	December 31	
	2017	2016
Loss carryforward	<u>\$ 49,484,247</u>	<u>\$ 35,056,888</u>
Deductible temporary differences	<u>\$ 21,422,629</u>	<u>\$ 14,239,006</u>

**f. Information about unused loss carry-forward and tax-exemption**

Loss carryforwards as of December 31, 2017 comprised of:

Remaining Carrying	Expiry Year
\$ 2,198,532	2018
778,886	2019
1,156,287	2020
1,061,080	2021
1,018,934	2022
6,979,331	2023
9,428,974	2024
21,829,694	2025
22,320,838	2026
17,997,384	2027
<u>267,527</u>	2028-2032
<u>\$ 85,037,467</u>	

Under the Statute for Upgrading Industries, HTC was granted for corporate income tax exemption as follows:

Item Exempt from Corporate Income Tax	Expiry Year
Sales of wireless and smartphone which has 3.5G and GPS function	2015.01.01-2018.09.30

**g. The aggregate amount of temporary difference associated with investments for which deferred tax assets (liabilities) have not been recognized**

As of December 31, 2017 and 2016, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax assets have been recognized were NT\$4,347,613 thousand and NT\$497,194 thousand, respectively.

**h. Integrated income tax**

The imputation credit account ("ICA") information as of December 31, 2017 and 2016, was as follows:

	December 31	
	2017	2016
(Accumulated deficits) unappropriated earnings generated on and after January 1, 1998	<u>\$ ( 6,093,403)</u>	<u>\$ 10,841,425</u>
Balance of ICA	<u>\$ 8,197,639</u>	<u>\$ 8,196,519</u>
	For the Year Ended December 31	
	2017	2016
	(Expected)	(Actual)
Creditable ratio for distribution of earnings	Note	34.87%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, no creditable ratio for distribution of earnings in and after 2018 is expected.

**i. Income tax assessments**

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

The income tax returns of Yoda Co., Ltd., 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 Year Ended December 31	
	2017	2016
Basic loss per share	<u>\$ ( 20.58)</u>	<u>\$ ( 12.81)</u>

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

**Net Loss for the Years**

	For the Year Ended December 31	
	2017	2016
Loss for the year attributable to owners of the parent	<u>\$ (16,905,713)</u>	<u>\$ (10,560,103)</u>

**Shares**

	Unit: In Thousands of Shares	
	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic loss per share	<u>821,593</u>	<u>824,084</u>

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

**29. BUSINESS COMBINATIONS**

**a. Subsidiaries acquired**

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

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

**b. Considerations transferred**

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

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

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

**d. Non-controlling interests**

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

**e. Goodwill recognized on acquisition**

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

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

**f. Net cash inflow on acquisition of subsidiaries**

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

**g. Impact of acquisitions on the results of the Group**

The results of the acquirees since the acquisition date included in the consolidated statements of comprehensive income were as follows:

	VRChat, Inc.
Revenue	<u>\$ -</u>
Loss	<u>\$ ( 31,268)</u>

Had these business combinations been in effect at the beginning of the annual reporting period, the Company's revenue from continuing operations would have been NT\$62,119,814 thousand, and the loss from continuing operations would have been (NT\$16,947,067) thousand for the year ended December 31, 2017. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on August 2, 2017, nor is it intended to be a projection of future results.

Information on employee share options was as follows:

	For the Year Ended December 31			
	2017		2016	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
Balance at January 1	20,072	\$ 136.65	24,964	\$ 137.20
Options exercised	( 10)		-	
Options forfeited	<u>( 3,994)</u>		<u>( 4,892)</u>	
Balance at December 31	<u>16,068</u>	137.45	<u>20,072</u>	\$ 136.65
Options exercisable, end of the year	<u>15,792</u>		<u>14,658</u>	

**30. 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 common share of HTC. The options granted are valid for 7 years and exercisable at certain percentages after the second anniversary from the grant date.

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 common 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 about outstanding options as of the reporting date was as follows:

	December 31	
	2017	2016
Range of exercise price (NT\$)	\$54.5-\$149	\$54.5-\$149
Weighted-average remaining contractual life (years)	5.24 years	6.30 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 5,000 thousand and 7,500 thousand shares amounting to NT\$50,000 thousand and NT\$75,000 thousand, respectively. In 2014 and 2015, HTC's board of directors passed a resolution to issue 5,000 thousand shares 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:

- The employees cannot sell, pledge, transfer, donate or in any other way dispose of these shares.
- The employees holding these shares are entitled to receive cash and dividends in share.
- 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 years ended December 31, 2016 and 2017, HTC retired 1,358 thousand and 1,193 thousand restricted shares for employees amounting to NT\$13,578 thousand and NT\$11,926 thousand, respectively. As a result, the numbers of the HTC's issued and outstanding employee restricted shares as of December 31, 2017 was 3,209 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\$128,811 thousand and NT\$431,996 thousand for the years ended December 31, 2017 and 2016, respectively.

## 31. CAPITAL RISK MANAGEMENT

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

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

#### a. Fair value hierarchy

December 31, 2017

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

December 31, 2016

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

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

## 32. 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.

There were no transfers between Levels 1 and 2 for the years ended December 31, 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

	December 31	
	2017	2016
<b>Financial assets</b>		
<b>FVTPL</b>		
Held for trading (Note 1)	\$ 196,941	\$ 143,642
Loans and receivables (Note 2)	27,211,199	53,495,584
Available-for-sale financial assets (Note 3)	3,367,695	3,563,166
<b>Financial liabilities</b>		
<b>FVTPL</b>		
Held for trading	75,184	133,420
Amortized cost (Note 4)	26,389,180	45,052,834

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 note and trade payables, other payables, agency receipts and guarantee deposits received.

### Financial Risk Management Objectives and Policies

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

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

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

#### a. Market risk

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

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

#### Foreign currency risk

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

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 37.

#### Sensitivity analysis

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

The following table details the Company's sensitivity

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

	Profit or Loss	Equity
<u>For the year ended</u>		
<u>December 31, 2017</u>		
USD	\$ 30,978	\$ ( 136,557)
EUR	2,751	( 5,429)
RMB	( 8,819)	( 99,138)
JPY	( 1,356)	( 1,376)
<u>For the year ended</u>		
<u>December 31, 2016</u>		
USD	\$ 44,739	\$ ( 166,009)
EUR	975	( 19,292)
RMB	( 26,064)	( 114,465)
JPY	11,035	( 1,284)

### 1) Liquidity risk 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.

<u>December 31, 2017</u>	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 7,127,952	\$ 7,441,270	\$ -
Other payables	6,885,512	4,796,378	-
Other current liabilities	132,387	-	-
Guarantee deposits received	-	-	5,681
	<u>\$ 14,145,851</u>	<u>\$ 12,237,648</u>	<u>\$ 5,681</u>

### 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 is 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.

<u>December 31, 2016</u>	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 10,641,728	\$ 15,606,000	\$ -
Other payables	10,341,957	8,006,777	-
Other current liabilities	371,910	62,356	-
Guarantee deposits received	-	-	22,106
	<u>\$ 21,355,595</u>	<u>\$ 23,675,133</u>	<u>\$ 22,106</u>

### 2) Liquidity risk 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.

<u>December 31, 2017</u>	Less Than 3 Months	3 to 12 Months	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	<u>\$ 36,842</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 14,373,269	\$ -	\$ -
Outflows	( 14,386,102)	-	-
	<u>\$ ( 12,833)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2016</u>			
	Less Than 3 Months	3 to 12 Months	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	<u>\$ 73,323</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 15,227,772	\$ -	\$ -
Outflows	( 15,250,504)	-	-
	<u>\$ ( 22,732)</u>	<u>\$ -</u>	<u>\$ -</u>

### 3) Bank credit limit

	December 31	
	2017	2016
Unsecured bank general credit limit		
Amount used	\$ 294,870	\$ 710,857
Amount unused	<u>18,315,345</u>	<u>22,227,369</u>
	<u>\$ 18,610,215</u>	<u>\$ 22,938,226</u>

Amount used was included guarantee for customs duties and for patent litigation.

## 33. 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
Nan Ya Plastics Corporation	Its director in substance and HTC's chairwoman are relatives and other relatives
Atrust Computer Corporation	Its general manager in substance is HTC's director
Employees' Welfare Committee	Employees' Welfare Committee of HTC
Huada Digital Corporation	Joint Venture
VIA Technologies (China) Co., Ltd.	The chairman of its parent company in substance is HTC's director

### Operating Sales

	For the Year Ended December 31		December 31	
	2017	2016	2017	2016
Joint venture	\$ -	\$ 28,955		
Employees' Welfare Committee	-	937		
Other related parties	<u>83,165</u>	<u>102,003</u>		
	<u>\$ 83,165</u>	<u>\$ 131,895</u>		

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

	December 31	
	2017	2016
Other related parties	<u>\$ 22,400</u>	<u>\$ 15,720</u>

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been asked for trade receivables from related parties. Trade receivables from related parties are assessed without bad debt risk hence no bad debt expense had been recognized for the years ended December 31, 2017 and 2016.

### Purchase

	For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016
Other related parties	<u>\$ 3,360</u>	<u>\$ 1,866</u>		

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

	December 31	
	2017	2016
Other related parties	<u>\$ 960</u>	<u>\$ 1,866</u>

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

### Compensation of Key Management Personnel

	For the Year Ended December 31	
	2017	2016
Short-term benefits	\$ 210,480	\$ 378,456
Post-employment benefits	2,669	2,709
Termination benefits	-	17,583
Share-based payments	<u>13,952</u>	<u>75,366</u>
	<u>\$ 227,101</u>	<u>\$ 474,114</u>

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

### Rental Expenses

	For the Year Ended December 31	
	2017	2016
VIA Technologies (China) Co., Ltd.	\$ 24,087	\$ 9,178
Other related parties	<u>4,708</u>	-
	<u>\$ 28,795</u>	<u>\$ -</u>

The Company leased offices, staff dormitory and meeting rooms owned by VIA Technologies (China) Co., Ltd.

and a related party under an operating lease agreement, respectively. The rental payment is determined at the prevailing rates in the surrounding area.

### Property, Plant and Equipment Acquired

	Price	
	For the Year Ended December 31	
	2017	2016
Other related parties	<u>\$ -</u>	<u>\$ 81</u>

### Other Related-party Transactions

Other related parties provide selling and marketing service to the Company. The selling and marketing service expenses were NT\$6,000 thousand and NT\$6,427 thousand for the years ended December 31, 2017 and 2016, respectively.

### 34. PLEDGED ASSETS

As of December 31, 2017 and 2016, the time of deposits amounting to NT\$149,810 thousand and NT\$113,528 thousand and were classified as other current financial assets were provided respectively as collateral for rental deposits and litigation.

### 35. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

In June 2011, IPCOM filed a new complaint against the Company alleging patent infringement of patent

owned by IPCOM with the High Court in London, the United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in above-mentioned Courts in Germany and the United Kingdom are still ongoing. The Company implemented the alternative solution since 2012. The Company evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against the alternative solution of the Company are very unlikely.

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

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

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

- b. In December 2015, Koninklijke Philips N.V. (Philips) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging infringement of certain Philips patents. In October 2016, the Mannheim Court found that certain smartphone products sold by Company in Germany infringed the German part of European patent No. 0888687 (EP '687 patent), which relates to device user interface, and granted an injunction against the Company. However, Philips has not enforced the injunction. In July 2017, the German Federal Patent Court found that EP '687 patent is invalid. The litigations between the Company and Philips are ongoing. In order to protect the interests of the Company, and its customers, the Company has appealed the Court's decision.

As of the date that the Board of Directors approved and authorized for issuing consolidated financial

statements, the appeals Court has not issued a ruling with respect to the EP '687 patent.

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

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

### 37. 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:

	December 31			
	2017		2016	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<b>Financial assets</b>				
Monetary items				
USD	\$ 1,156,853	29.84	\$ 1,914,574	32.27
EUR	63,262	35.66	101,434	33.91
JPY	5,825,499	0.2649	2,711,104	0.2756
RMB	1,188,839	4.58	1,208,051	4.62
Non-monetary items				
USD	85,590	29.84	84,259	32.27
RMB	1,536	4.58	167	4.62
Investments accounted for by the equity method				
USD	13,460	29.84	16,111	32.27
RMB	2,513	4.58	2,500	4.62
<b>Financial liabilities</b>				
Monetary items				
USD	793,530	29.84	1,445,356	32.27
EUR	66,494	35.66	93,533	33.91
JPY	4,922,152	0.2649	6,745,333	0.2756
RMB	179,398	4.58	212,669	4.62

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange gains were NT\$442,530 thousand and NT\$348,061 thousand, respectively. It is impractical to disclose net foreign exchange gains or losses by each

### 36. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On September 21 2017, the Company signed a business cooperation agreement with Google Inc. (Google). The agreement supports the Company's continued use of its brand, enabling a more streamlined product portfolio, greater operational efficiency and financial flexibility. The part of employees and assets of the Company will transfer to Google and Google will receive a non-exclusive license for the HTC intellectual property. The transaction amounted to US\$1,100,000 thousand and completed on January 30, 2018.

significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

### 38. SIGNIFICANT CONTRACTS

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

Contractor	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.
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.
Google Inc.	September 21, 2017 - January 30, 2018	Certain HTC employees who are already working with Google Inc. to develop Pixel smartphones will join Google Inc. HTC will receive US\$1.1 billion in cash from Google Inc. as part of the transaction. Separately, Google Inc. will receive a non-exclusive license for HTC intellectual property.

### 39. SEGMENT INFORMATION

The Company's operations are mainly in the research, design, manufacture and sale of smart mobile devices and the operating revenue is more than 90 percent of the total revenue.

Operating segment financial information was as follows:

### Geographical Areas

The locations of the Company's non-current assets (other than financial instruments, deferred tax assets and post-employment benefit assets) as of December 31, 2017 and 2016 were as follows:

	December 31	
	2017	2016
Taiwan	\$ 12,146,237	\$ 13,565,322
Country Z	157,576	159,072
Others	<u>3,044,438</u>	<u>6,442,335</u>
	<u>\$ 15,348,251</u>	<u>\$ 20,166,729</u>

The countries that accounted for 10 percent or more of consolidated total revenues for the years ended December 31, 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	2016
Taiwan	\$ 7,053,499	\$ 10,087,044
Country Z	27,951,150	32,476,961
Others	<u>27,115,165</u>	<u>35,597,153</u>
	<u>\$ 62,119,814</u>	<u>\$ 78,161,158</u>

### Major Customer

External customer which accounted for 10 percent or more of the Company's total revenues for the years ended December 31, 2017 and 2016 was as follows:

	For the Year Ended December 31	
	2017	2016
Customer A	<u>\$ 28,107,186</u>	<u>\$ 16,374,256</u>

# HTC's Code of Conduct

HTC's Code of Conduct is a guideline to provide high ethical standards for all employees in conducting HTC business activities. All employees of HTC Corp., including branches and subsidiary companies, must follow these ethical standards regardless of the employees' position, grade level, and location.

This Code includes three major sections: the General Moral Imperative, Vendors/Suppliers and Customers Relationship, and Conflict of Interests.

The General Moral Imperative section requires that HTC commits to providing a safe and healthy work environment and equal opportunities, and that it establishes a behavioral code for the treatment of knowledge about the company's assets/properties/information.

The Vendors/Suppliers and Customer Relationship section requires that HTC commits to maintaining a fair, legal, and longterm relationship with its vendors/suppliers and customers to the benefit of all parties.

The Conflict of Interest section describes the behavioral rules for employees in situations of divided interest.

This Code is superior to any other local regulations except certain mandatory laws/acts issued by the local government. In such cases, the Talent Management Division should submit the specific local laws/acts to Corporate Talent Management Division in order to waive this specific regulation of the Code in that location. Otherwise, any violation of HTC Code of Conduct and applicable policies may cause disciplinary action up to and including the termination of employment. The employees are responsible for understanding and complying with the HTC Code of Conduct, as well as other applicable HTC policies/rules.

## Mandatory Contents

### 1.0 General Moral Imperatives

While maintaining a work culture that ensures the company's success, HTC strives to treat each employee fairly and with dignity. HTC is also committed to complying with the labor laws of each country it operates in. As well, each employee is responsible for complying with all applicable external and internal laws, and follow up any new revision of company policies.

### 1.1 Work Environments:

HTC is committed to comply with local laws and regulations to establish a safe and healthy workplace, free from recognized hazards. Furthermore, HTC is thoroughly dedicated to providing employees with a workplace that is free of harassment (including sexual harassment) and discrimination. Any language or behavior of intention to cause hostilities or violations of this policy is strictly prohibited and shall be reported to a responsible authority immediately.

### 1.2 Corporate Confidentiality:

During the term of employment with HTC and thereafter, each employee must hold in strict confidence and not disclose, directly or indirectly, any "Confidential Information" (as defined below) gained from HTC or its customers or vendors/suppliers to any third party without the prior written consent of HTC. "Confidential Information" must be used only for the purpose of executing work for HTC. "Confidential Information" shall mean all business, technical, operational or other information that is not generally known to the public and that an employee develops, has access to, and becomes acquainted with during the term of employment, whether or not such information (A) is owned by HTC, HTC's customers, vendors/suppliers, or any third party with which HTC desires to establish a business relationship with; (B) is in oral, written, drawn or electronic media form; (C) is subject matter for the application of patents, trademarks, copyrights, or other intellectual property rights; or (D) is labeled with "Confidential" or an equivalent word. Confidential information may include, but is not limited to the following:

1. Business plans, manufacturing and marketing plans, procurement plans, product roadmaps, product design records, product test plans and reports, product software and source codes, product pricing, product appearance, product specifications, tooling specifications, personnel information, financial information, customer lists, vendors/supplier lists, distributor lists, raw materials and product inventory information, all quality records, trade secrets, and other information related to the Company's business activities;
2. Documents, databases, or other related materials to any computer programs or any development stages thereof;

3. Discoveries, concepts, ideas, designs, sketches, engineering drawings, specifications, circuit layouts, circuit diagrams, mechanical drawings, flow charts, production processes, procedures, models, molds, samples, components, trouble shooting guides, chips and other know-how; and

4. Proprietary information of any third party (such as customers or vendors/suppliers) that the Company has a duty of confidentiality pursuant to contracts or required by any applicable laws.

### 1.3 Protection of Property, HTC's Assets, and Personal Information:

Copyrights, patents, trade marks/secrets, the terms of license agreements and any kind of intellectual property are under protection by related laws or regulations; violations are strictly prohibited. The Company's assets are not limited to physical equipment and facilities only, but also include technologies, trademarks, and other invisible concepts & confidential information. The utilization of company assets is for business matters and should be maintained, updated, and recorded properly and regularly. This is also applicable to the use of employee personal data. Those who are dealing with employee data shall consider the business matters and employees' privacy as well. The only exception that permits the revelation of employees' personal data is where such disclosure is required by government laws.

### 1.4 Equal Opportunity:

HTC's Employment Policy is to comply with all applicable laws. Hiring decisions are based on HTC's business needs and the qualifications of applicants, and HTC strives to provide equal employment opportunities for all applicants and employees without regard to non-job-related factors, such as race, color, social class, language, religion, political affiliation, national origin, gender, sexual orientation, marital status, appearance, disability, previous union membership etc. Everyone must be treated with dignity and respect. This principle applies to all areas of employment, including, but not limited to, recruitment, hiring, training, promotion, compensation, benefits, transfer, and social and recreational programs. All employees should be responsible for the data accuracy and quality in any type of report in all aspects of their daily work. Any intention of misleading or incorrect data is not acceptable and may cause disciplinary action.

### 1.5 Political Activities:

The Company encourages employees to participate in public activities as responsible citizens. However, HTC employees are prohibited from engaging in political activities on behalf of HTC. The Company is not allowed to donate or engage the political activities in most global operations. Therefore, employees must be aware of that their involvements are on an individual basis, and no contribution or donation to political candidates or parties can be made under the company name. Furthermore, employees must not organize or hold any speeches or activities connected to political activities on Company premises.

### 2.0 Vendors/Suppliers and Customers Relationship

It is a basic principle in Company business operations to maintain a good relationship with our vendors/suppliers and customers.

### 2.1 Firm and Rational Attitude:

In securing and negotiating business, all employees should attempt to establish long-term relationships with our customers and vendors/suppliers by providing essential and accurate information about our products and services. Employees shall demonstrate their professionalism with a sincere, firm, and rational attitude while dealing with customers or vendors/suppliers. Conflicts caused by emotional languages or behaviors are strictly prohibited.

### 2.2 Product Quality and Safety:

The Company is committed to pursue excellence and maintain quality at all times. The Company strives to continuously improve the quality of products and service in compliance with the related safety regulations/laws in order to benefit our customers and vendors/suppliers and achieve world-class competitiveness. To maintain HTC's valuable reputation and the benefits to our customers and vendors/suppliers, all employees must comply with our quality processes and safety requirements.

### 2.3 Performance of Contracts:

Company contracts must be executed not only in accordance with the requirements of each contract, but also in compliance with all the laws and regulations applicable to our business. Any unfair or unreasonable regulation or condition should be avoided. Purchasing decisions must

be made in the best interests of HTC by considering the vendors'/suppliers' suitability, quality, price, and delivery of products or services; any personal preferences are not allowed for special offers. Purchasing agreements/sales contracts and related evaluation information should be documented clearly and confidentially. The contract information of customers and vendors/suppliers, including but not limited to their names, price, delivery condition, payment terms, are as confidential as Company documents. Every employee must protect this confidential information from misuse and disclosure.

## 2.4 Gifts, Entertainment and Business

### Courtesies:

All employees or their family (means employee's spouse, parents, the parents of the spouse, children, siblings, grandparents, grandchildren, and other close relatives and friends) are not allowed to request, accept, or offer bribes or illegal profits (including but not limited to kickbacks, commissions, cash, securities, costly gifts and undue entertainment, or any direct or indirect improper gifts inconsistent with the normal trading course or insider trading) from/to customers, suppliers/vendors, or anyone in a business relationship in any kind of situation, nor to conduct any behavior that violates his/her duties and cause damage to HTC and directly or indirectly favor himself/ herself, employees of HTC's vendor/supplier/ business partner, or related parties. Employees may provide or accept meals or entertainment if these activities are legitimate, consistent with accepted business practices and demonstrably help to build a business relationship. However, regardless of the amount, employees are not allowed to accept or give kickbacks and bribes, such as (but not limited to) any type of gift, cash, stock, bond or its equivalent, or to participate in any business courtesy that may compromise the employees' judgment or motivate the employees to perform acts prohibited by laws/regulations or HTC policies. Meal expenses between/among colleagues cannot be treated as entertainment expenses. However, expenditures incurred for entertainment immediately before, during, or after a business meeting are acceptable, if those who will enjoy the entertainment are from another country or continent.

## 2.5 Business Travel:

All employees are responsible for ensuring that their business travels are intended to further Company business

interests, and the business travel and entertainment expenditures shall be reasonable, prudent, and in accordance with applicable Company policies. On behalf of the Company, employees should be aware that certain venues, whose entertainment nature or atmosphere may impact negatively on the Company's reputation, such as a sexually-oriented site or similar environment, are not appropriate for business-related meetings or activities. These venues are not acceptable even if the expenses incurred are not paid by the Company. If the common local custom is to engage in recreational activities (e.g. golf tournaments) for business purposes, then these activities should be minimized when possible in case of the expenses are not paid in personal.

**2.6** In the event that any HTC employee is offered/requested kickbacks, commissions, gifts, or inappropriate offers from a representative of a vendor, supplier or business partner, he/she is required to report the incident to HTC (anticorruption@htc.com). An internal investigation team will look into the matter, with the employee's identity treated in strict confidentiality.

**2.7** Employees are not to solicit or lure other employees in the company to violate their duties.

**2.8** Employees who are responsible for the custody or use of any HTC property are not misuse or abuse the company's property.

## 3.0 Conflict of Interest

All employees must avoid any activity that is or has the appearance of being hostile, adverse, or competitive with the Company, or that interfaces with the proper performance of their duties, responsibilities or loyalties to the Company.

## 3.1 Outside Employment:

All employees are prohibited to work either part-time or full-time for or receive payments of services from any competitors, customers, vendors/suppliers or subcontractors of HTC. If any employee is invited to serve as a lecturer, board member of an outside company, advisory board, committee or agency, he/she must get appropriate approval from the local top manager of Company in advance. Even if an invitation is not listed as above, permission from a top manager is required. In general,

employees are not restricted from being members of the boards of charitable or community organizations. HTC also permits employees obtaining appropriate approval to serve as directors of an outside company that is invested in by HTC or is not a competitor or service provider of a competitor.

## 3.2 Inside Trading:

All employees are not permitted, using their own names or the names of people with whom they have personal relationships, to engage in business ventures the same as or similar to HTC or to invest exceeding five percent of total market value in such a company. Employees are also prohibited from use so-called "Inside Information" to gain personal profit or to influence the independent judgment of business entities, such as investment in competitors, customers, vendors/suppliers or subcontractors. "Inside Information" comprises facts that an employee knows, but people outside of HTC may not know, which might be in written form or discussed orally in a meeting. Inside information may also be information received from another company, such as from customers, suppliers or companies with which HTC has a joint research or development program. Therefore, employees may never use inside information to trade or influence the trading of stocks of HTC or other companies and should also not provide "tips" or share inside information with any other person who might trade stock. Insider trading violates company policies and may subject the employee to criminal penalties in accordance with the government's regulations/laws.

## 3.3 Creditor and debtor relations:

Employees may have debtor and creditor relations with colleagues without interest to help each other for urgent situation, but are not allowed to have creditor or debtor relations with subordinates, customers, suppliers/vendors, or anyone in a business relationship, nor introduce such persons (including colleagues) to anyone to enter any debtor- creditor relations.

## 3.4 Third party invitations, which may reference your role and/or knowledge as an employee at HTC:

If any HTC employee is invited to join external meetings, conferences, seminars, lectures, etc., or if asked to be a host

or judge for an event during or outside of office hours, he/she must secure approval from the line manager and local PR team prior to participation.

**3.5** The company provides employees with a full range of welfare measures such as life insurance, health and convenience services. As employees, you should appreciate the resources provided by the company and do not abuse or misuse the corporate welfare system.

**3.6** HTC employees are not allowed to persuade anyone in the company, customers or third-parties such as suppliers or subcontractors to invest in other businesses.



HTC Corporation



Chairwoman: Cher Wang