HTC 2014 Annual Report

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LETTER TO HTC SHAREHOLDERS

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Dear Shareholders,

The mobile arena has changed considerably over the last two years, with many competitors both old and new fighting for territory. Yet despite all the challenges, we are happy to report that HTC turned in a robust performance in 2014, ending the year in profit and with the Company in good shape. We continue to cut no corners on design and create beautiful products without compromising on quality or functionality. Our phones won major awards and gained critical acclaim on every continent, and our brand continues to gain awareness and consumer preference.

Product Summary

HTC sustained momentum in most markets over the year, with the flagship HTC One and HTC Desire lines of smart phones holding their own or expanding their markets despite stiff competition. The HTC One M8 was launched concurrently in New York and London in March 2014, and was well received around the world, acquiring a customer review score upon launch of 4.8 out of 5 across the regions* and providing a clear halo effect for the HTC brand and other product groups. The HTC One M8 utilizes our unique zero-gap manufacturing process to create a phone made almost entirely out of metal, raising the bar in the industry for quality and finish. Introduced at the same time was the award-winning HTC Dot View™ smart case, which enables users to answer calls, check the time and read notifications without opening the cover or turning on the phone.

The "Double Exposure" launch event held in New York in October staged several firsts for HTC in the creation and distribution of services as well as software, including HTC Eye™ Experience, Zoe™ and HTC RE™. The Eye Experience integrates a set of enhanced imaging applications such as face tracking to improve video chats and an array of tools that enable users to combine, merge or crop images in creative new ways, while Zoe is a collaborative social video editing application that we made freely available on Google Play store, enabling HTC to reach out directly to both current and potential users.

The launch of the HTC RE™ , a remarkable little camera marked HTC's move into new areas. Designed for everyday use, the HTC RE embodies our vision to expand the connected lifestyle ecosystem beyond the smart phone through the creation of complementary devices that address specific market needs.

The HTC Desire range performed well throughout the year and made a solid contribution to extending the HTC brand in emerging markets. The widely acclaimed Desire 816 sold well in key Asian and Middle Eastern markets as an excellent value mid-tier phone, while the Desire 610 and 510 fared well in the US and European markets. The Desire 820, featuring the world's first 64-bit octa-core processor, received wide distribution support from the major carriers in China. The HTC Desire EYE, launched in late November and ranged in key Asian markets, incorporates all the exciting imaging technology that forms the HTC Eye™ Experience. We look forward to continued progress in building this product family and making the benefits of smartphones accessible to more people around the world.

Finally, we have had an exciting start to 2015 with the launch of the new flagship, the HTC One M9, at Mobile World Congress, as well as a further step into new connected lifestyle fields with the launch of the HTC Grip™ , a high-performance, smart fitness tracker. HTC Grip is the first product from our partnership with Under Armour® , a leading fitness retailer, and will empower athletes in their pursuit of performance. In addition, we announced a strategic partnership with Valve® in the development of the advanced virtual reality platform, HTC Vive™ , which received an overwhelming response at Mobile World Congress and earned several best-in-show awards. This diversification strategy, working with strong partners in each field, will broaden our reach, connecting us to new consumers around the world and enabling us to deliver on our promise of fostering human connectiveness.

*Social review benchmark: Confirmit

Corporate Governance

In recognition of the strategic importance of connected smart devices to HTC's future, we undertook a review of the organization leadership toward the latter part of 2014, with a view to enabling Peter Chou to focus fully on identifying and developing new product opportunities in the connected lifestyle space. Accordingly, the Board of Directors agreed on a strategic change at the top, with Cher Wang assuming the role of CEO in March 2015. Peter Chou has been increasingly focused on product development, a role in which he has demonstrated world-class design and cutting-edge technology expertise. This announcement formalized that progression and lays the foundation for the next stage of HTC's development.

During his time as CEO, Peter Chou oversaw the successful transition of HTC from a handheld device ODM to a global brand. In his new executive role as Head of Future Development, Peter Chou will be instrumental in identifying future growth opportunities for the Company. The Board and management express their profound appreciation for his stewardship over his ten years of leadership, and look forward to his continued contribution in his strategic new role.

Accolades and Achievements

After a superlative year of awards in 2013, our products again earned significant industry, media, and consumer awards in the year of 2014. Of particular note was the recognition of the HTC One M7 as the "Best Smartphone" by the GSMA Global Mobile Awards. HTC One M8 also received the "Phone of the Year" award from T3; and garnered the "Gold Product Design" from iF, a tribute to the One M8's superb handcraft achievement among many editorial and reader-selection awards, including Business Insider "Best Phone on the Market" and Laptop Magazine.

The HTC Desire smart phones also gained their fair share of awards. In particular, the HTC Desire 820 was recognised for its beautiful design and received the "Best mid-range smartphone" award from Android Authority; it also followed in the illustrious footsteps of the Desire 816 in being honoured in Android Central's 2014 "Best of IFA Awards" . The Desire 816 continued from strength to strength in its own right, receiving awards at Mobile World Congress as "Best Phone" by Tech Radar, "Best in Show" by Know Your Mobile, and Editor's Choice by PC Mag.

Additionally, HTC RE™ camera also won a "Gold Product Award" by Spark Awards. At Mobile World Congress in 2015, HTC Vive™ was awarded "Best in Show" and also received many accolades from media. HTC Vive was named "2015 MWC Top Picks" by Android Central, "Best in Show at MWC 2015" by Tech Radar, "MWC 2015 Best of Show" by Digital Trends, and the accolade continue. We are very excited to see the consumer response as the product rolls out in the back half of 2015 and look forward to gaining more recognition as it becomes more widely available.

Financial Performance

HTC's focus on streamlining operations and enhancing efficiencies across the business over the last two years allowed the Company restore profitability despite the increasingly competitive landscape. Full-year consolidated revenues came in at NT$187.9 billion, with consolidated gross profit of NT$40.8 billion. Consolidated gross margins were 21.7%, while operating margins were at 0.4%. Net profit after tax stood at NT$1.48 billion, which equates to a full-year earnings per share (EPS) of NT$1.80. We are working hard to build upon this positive financial performance in 2015.

The Pursuit of Brilliance

In 2014, we undertook a brand refresh to reflect HTC's industry maturity and increase our connection with consumers, while retaining the focus on brilliance that is deeply rooted in our corporate culture. Our vision is to foster human connectiveness, to enable a sense of interconnectedness and belonging, to be part of something larger than ourselves. At HTC, we believe in the power of "One", striving to connect people instead of dividing the world by our differences.

We aim to achieve this vision through the Pursuit of Brilliance, our brand spirit that is at the heart of everything we do. Our pursuit of brilliance inspires best-in-class design and game-changing mobile experiences; it pushes us to reimagine new ways to connecting the world, consumers and their dreams in ways never before thought possible.

As every aspect of our lives is being enhanced by ubiquitous intelligence, it is important for HTC to seize the opportunities that these changes bring. Smart devices increasingly form the cornerstone of our homes, our cars and our cities, and these changes are providing great opportunities for players with the right people, the right attitude, and the right expertise. With our proven records in design, hardware and software integration, and leading technology, HTC is well placed to define the future. With the pursuit of brilliance instilled in our DNA, we can aim higher and expand our vision of the connected lifestyle and celebrate our shared interconnectedness.

Social Responsibility

HTC's dedication and passion go beyond our products and services - we continue to demonstrate our care for the community where we can make a difference. HTC takes a broader approach to serving society and making life better through The HTC Social Welfare Foundation and HTC Education Foundation. Both foundations are committed to enhancing the welfare of disadvantaged groups, offering educational scholarship and opportunities for those in need.

2014 marked the ten-year anniversary of the HTC Foundation offering motivational and character education training, with over 70,000 adults joining the 1,200 courses offered over the decade. It has also been five years since the start of the education program for underprivileged children and teenagers, which has seen 23,000 children attending courses; this area of work has expanded greatly over this time, with 7,000 joining in 2014 alone. Video teaching materials and instructor guides have been created and provided to local institutions, and the Foundation continually strives to discover more areas to support the community.

From our people to our products and our social and environmental initiatives, the Pursuit of Brilliance represents the guiding philosophy that has driven and will continue to shape HTC as a global brand.

HTC Corporation

Chairwoman and CEO

Head of Future Development

CHAPTER

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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.

The Pursuit of Brilliance is at the heart of everything we do, inspiring best-in-class design and game-changing mobile 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.

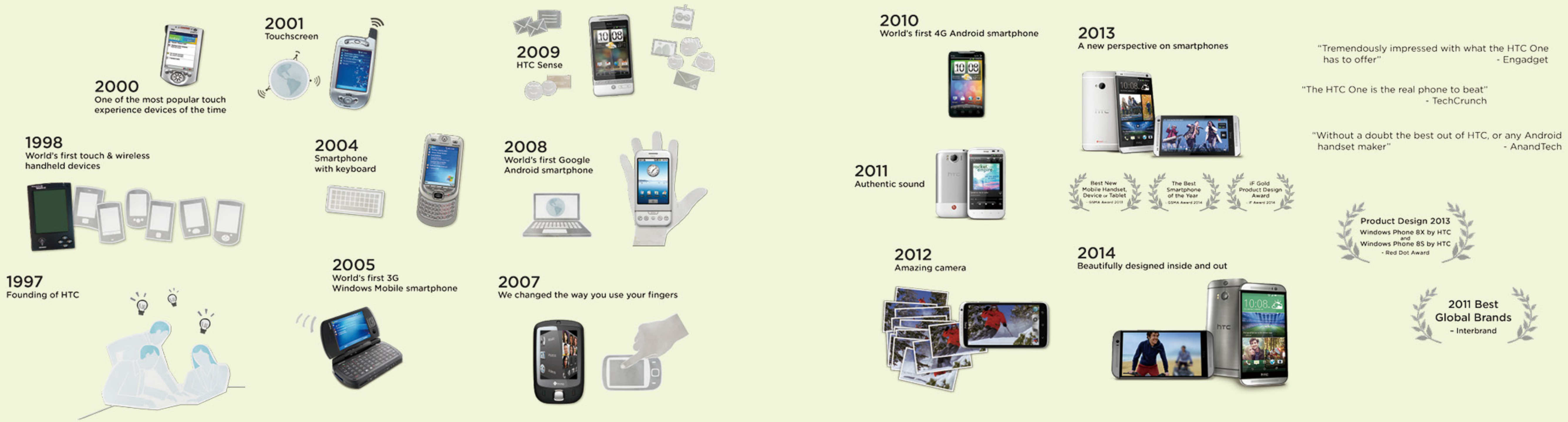
In early 2014, we launched HTC Power To Give™ . By combining all of the computing power at the fingertips of smartphone users and connecting them to international research projects and institutes, HTC Power To Give creates one of the world's largest supercomputers to advance research on ecological and environmental issues, and to help find cures for diseases like cancer and Alzheimer's.

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. Our product packaging is 98% biodegradable, and the HTC One M7 was the first smartphone in the world built to international specifications of complete carbon footprint and lifecycle assessments. That's an industry first we're particularly proud of.

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. As we expand into new categories with the HTC RE™ camera and other upcoming products, 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, we have been through three major transformations that have helped us reinvent ourselves and achieved new growth.

Professional PDA Designer

Soon after beginning operations in 1997, HTC was selected by Microsoft to develop products using Windows CE, the newly launched operating system designed specifically for consumer electronics products. The President (now the Director of the Board) HT Cho and the Vice President Peter Chou (now the Head of Future Development) 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 partner of Microsoft Corporation and built the solid foundation on which the HTC-Microsoft partnership continues to grow and flourish. The Compaq iPAQ, manufactured by HTC for Compaq Computer became a huge market success when launched in 2000 and started a new phase for HTC 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. Peter Chou predicted that the GSM standard would spread from Europe to dominate U.S. and Japanese markets; he then 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 entrance into the global telecommunications market.

HTC Brand

Launch of the HTC brand globally in 2007 committed the company formally to long-term global brand development. HTC subsequently launched HTC Touch, placing HTC in the front and center of growing worldwide excitement over touch screen smart phones. In 2009, HTC unveiled its all-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 campaigns. HTC also sponsored the Tour de France and 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 phones 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.

Kicking off 2013, HTC became the official global phone supplier partner of the UEFA Champions League and UEFA Europa League. HTC is also the Official Global Smartphone Supplier Partner of the UEFA Super Cup Final in 2013 and 2014, and the UEFA Women's Champions League Final in 2013, 2014 and 2015. The partnership has placed HTC at the center of two of the world's most elite football competitions and has enabled it to deliver new and innovative ways for fans around the world to get closer to the action.

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.

We believe technology can transform the world. At HTC, we do all of these things in the knowledge that we're always creating for the future. As we expand into new categories with connected devices, 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.

Product development

HTC builds and markets innovative products for a connected world. We architect intuitive end-user experiences by combining holistic design that leverages our award-winning hardware and software design team. Our holistic design extends beyond the quality and craftsmanship to seamless integration of design, hardware, user interfaces, software, applications and cloud services. A core belief is to build experiences that are insightful, genuine, innovative and difficult to replicate, making our products defensible from competition.

For example, since 2013, HTC BoomSound™ has brought immersive audio to users who want a more powerful sound experience without headsets. HTC BoomSound is today the gold standard for audio on smartphones and has not been surpassed in the industry. HTC UltraPixel™ camera brought extraordinary imaging performance to photos and videos taken at night and continues to be the gold standard for camera performance under low light. HTC Sense™ continues to be the easiest-to-use user experience that is intuitive yet fast and lightweight, and it has been regularly touted as the best user experience for Android smartphones.

Since October 2014, HTC has been extending its core experience in design, product development and marketing by expanding its product line beyond smartphones. We have named this new connected product category under a new sub-brand called HTC RE™. Starting with the HTC RE camera, HTC introduced an intuitive lifestyle camera that allows users to take photos and videos while being able to enjoy and live the moment without hiding behind the viewfinder like a traditional camera. During Mobile World Congress 2015, we introduced HTC Grip™, a new performance fitness band developed together with Under Armour® Inc., the world's fastest growing sports brand. HTC Grip features multiple sensors, including GPS, to track specific sports such as running, cycling, weights or gym work, and it connects to Under Armour Record, a health and fitness network that helps users track, analyze, and share their fitness activities with the world's first social network for athletes and fitness enthusiasts.

And finally at MWC 2015, HTC announced the HTC Vive™, the world's most advanced and immersive virtual reality system that has taken the world by storm. Working with Valve® Corporation, the best gaming platform in the world as well as developer of hits such as Portal™ and Half-Life™, HTC Vive has been touted as the most immersive virtual reality system in the world surpassing existing VR systems. Unlike other VR systems, HTC Vive brings the VR experience to a full room scale, and simultaneously engages all your visual, auditory and physical faculties like your hands and feet.

HTC is off to a great start in 2015. We continue to set the standards for design, quality and user experience. The new HTC One M9 sets a new standard for craftsmanship that is unrivalled in the consumer electronics industry and equal to the luxury products industry. We build phones that are beautifully crafted with finishing often found in jewelry and luxury watches. Since the HTC One M8, the jewelry-grade brush finish has not been successfully replicated by our competitors. With the HTC One M9, we have extended this jewelry-grade finish to all HTC One M9 models, and included a brand new 2-tone metal with multiple surface finishing like brushed, satin and mirror polish to create beautiful and luxurious phones that are timeless and iconic. Every version of an HTC One smartphone is enduring, and is a masterpiece in design and craftsmanship.

HTC BoomSound™ with Dolby® Audio is again setting a new bar for sound experience. Working with Dolby, HTC BoomSound has been enhanced with a brand new surround sound experience that brings immersive cinematic audio to the dual front-facing speakers and headsets. With thousands of readily available Dolby-encoded movies, users can now enjoy surround sound equal to a theatre experience. HTC BoomSound with Dolby Audio will extend to even more smartphones across the HTC smartphone lineup.

HTC's camera experience is focused on picture quality. This year, the advanced HTC UltraPixel™ camera has been moved to the front of the phone so that users can enjoy taking selfies even under low light conditions, surpassing all other smartphones. HTC UltraPixel camera has been touted as the best solution for the front camera of the phone, giving users brighter, sharper images all the time. We continue to listen to our users, and this year we have a brand new 20-megapixel main camera that results in sharper pictures with more details so that users can zoom, crop and share exactly what they want. Both cameras come with a smart sensing camera system that analyses each photo according to the scene and brings out more details with true-to-life colors.

Our camera hardware is only part of HTC's holistic camera experience. In October 2014, we gave the world the HTC Eye™ Experience that combines our great hardware camera with incredibly useful

software to help users tell their stories better and share memories with emotions. Split Capture, for example, allows users to simultaneously capture photos and videos with both the front and rear camera. Users can narrate and share their stories in a more personal way by capturing the scene in front of them and including themselves in it. We also enhanced selfie photography, allowing users to take photos and videos via voice command in multiple languages, or by simply smiling. To make selfies more beautiful, we introduced Live Makeup that reduces your facial blemishes even before you take the shot on both photos and videos. Finally, PhotoBooth takes 4 snapshots sequentially and creates a filmstrip photo. It is the perfect way to capture and share moments in your life.

HTC Eye™ Experience also enables Face Tracking in video calls and is already one of the best video conferencing features on the market. With Face Tracking, the camera automatically zooms and locks onto your face during a video call so that the other party – or up to four others in separate panels – can see you better, even when you move around. While this capability is unique to HTC, it works with the most popular video calling software from the Google Play store including Hangout, Skype, Tango, and other video calling apps. Face Tracking is also platform agnostic and can be seen on any smartphone and personal computer regardless of the operating system. iOS, Windows® PC, Macintosh® users and other Android phones can enjoy the benefits of Face Tracking when calls are initiated on a HTC phone. This is a great way to showcase HTC's innovative software to the world.

We are also making it easier for users to create magical-looking photos through Photo Editor. Photo Editor can create unique signature effects such as Double Exposure, Prism and Shapes so they can stand out when sharing their memories. The rise of apps such as Instagram reflects the desire for users to touch-up and make their photos look special, and Photo Editor fulfills that need.

To stay up to date with the latest developments in photography and videography, HTC is also rolling out a new camera mode plugin system. Smartphones with cameras are powerful, but many companies treat them statically. Instead of delivering a static one-time experience, we aim to upgrade the camera each time we develop a new feature or new mode. New camera modes will become available from regularly so that users can experience the latest and greatest camera features from HTC whenever it becomes available. This encourages user loyalty.

With so many photos taken by users and by their friends, HTC is delivering One Gallery to bring all these pictures into the phone gallery. Users can see all the pictures taken by their phone, together with pictures from cloud services such as Facebook, Flickr, Google Drive, and DropBox, in their phone's gallery. These lightweight thumbnails are displayed and organized intuitively by events, time, and location, and they can be easily tagged and searched. An image search capability is built in so that you can even search for photos of a single person across multiple sources.

We continue to develop and improve HTC BlinkFeed™. This is one of the most widely used features in HTC Sense™. It integrates news from thousands of reputable sources with social updates from Facebook, Instagram, Google+, etc. HTC BlinkFeed then presents it on an easy-to-read interface right on your home screen. It is now available in 37 languages, and we are delivering 25,000 articles daily through our top 1,000 news partners. It is one of the stickiest features on HTC devices that cannot be found on any app store. In 2015, we are working with international partners such as Yelp, Foursquare, Dianping, Orange Fish, iPeen and other partners to deliver meal suggestions to HTC BlinkFeed™. Around meal times, we recommend restaurants and places to eat right to your lockscreen, even including weather forecasts so that it is even more convenient.

Among the most powerful features on HTC Sense 7 is "Themes". Themes allows users to customize the look and feel of the phone in almost any way they want. Users can download hundreds of designer themes from our brand new Theme Store. The Theme Store will be expanded to include themes from some of the most popular brands in the world. Perhaps one of the best feature of themes is that it never goes out of style and is highly customizable. With Themes on-the-go, users can take any photo as the basis for the theme they are about to create a special style. Themes will pick out the colors that best represent the photo with unique and special options to change icons, colors, fonts, ringtones, title bars, backgrounds throughout key apps and interfaces. A web-based theme creation tool will allow third party designers or regular users to create themes with a much deeper level of customization. These crowd sourced themes will help the Theme Store become more popular as users share their themes with others. This creates a scalable way to bring more unique themes beyond what HTC can deliver.

HTC Sense Home was introduced together with HTC One M9 as part of Sense 7 to deliver an even more intuitive experience to the user. By recognizing where you are i.e., at Home, at Work or out-and-about, HTC Sense Home delivers your most frequently used apps to the home screen for that particular location. The apps you use the most often can be accessed the quickest. For example, you might download recipes from BigOven® at home and used Microsoft® Office® at work. These apps will show up when you are at home or at work respectively.

HTC Connect™

HTC is continuing its leadership in the area of home entertainment by allowing users to easily stream their content to displays or speakers at home. HTC Connect takes care of the underlying protocols so that users need only to swipe 3 fingers in their favorite media apps to stream music to their wireless speakers. It supports wireless speakers from the most popular audio brands like JBL®, Harmon/Kardon®, Yamaha®, Pioneer® and Panasonic® with multi-room playback.

In Oct 2014, we started delivering HTC software experiences to the wider Android and iPhone communities. Zoe™ is the first multi-platform app distributed via Google Play store and Apple® App Store®. Zoe provides a simple way to create, share and remix professional-quality highlight videos. With a single click, Zoe creates a Hollywood-style video of your photos and videos with effects, transitions and a soundtrack so that you can show your memories in a way that is much more fun and engaging. You can share these videos with friends and they can remix by adding additional photos and videos, choosing their own soundtrack and effects, and then re-share them. Zoe has now been downloaded more than 14 million times and more than 1.2 million videos have been shared since October 2014. This makes it one of the most popular apps on Google Play store.

Since October 2013, software design, development and marketing have taken on a new life at HTC. We started delivering updates via the Google Play so that we can bring new features to users quickly and more efficiently, which plays an important role in improving customer satisfaction.

Accessories

In 2015, HTC will focus on delivering intuitive HTC branded accessories that are core to the usability of HTC smartphones. HTC Dot View™ is regarded by users as one of the best cover accessories for smartphones. Its retro-looking dot matrix display allows users to see notifications and alerts, as well as answer calls, all without opening the front cover. It is well loved by users and the press. It is also the first accessory from HTC to garner the 2015 CES Innovation Award.

In 2015, we released HTC Dot View II, which incorporates a clear back cover to show off the new HTC One M9 in its full glory. HTC Dot View II retains all the great features found in the original HTC Dot View, and we added support for more holiday themes, scrolling messages, games and controls for music and other apps.

HTC is also expanding its range of accessories. The HTC One M9 comes with an optional HTC Active Case™ that offers users additional protection against water, dust and shocks. Active Headsets are waterproof and have magnetic clips for easy clasp around the neck. A new HTC DecoCase™ protection cover serves as a cover and a kickstand with changeable panels in a variety of vibrant colors and designs.

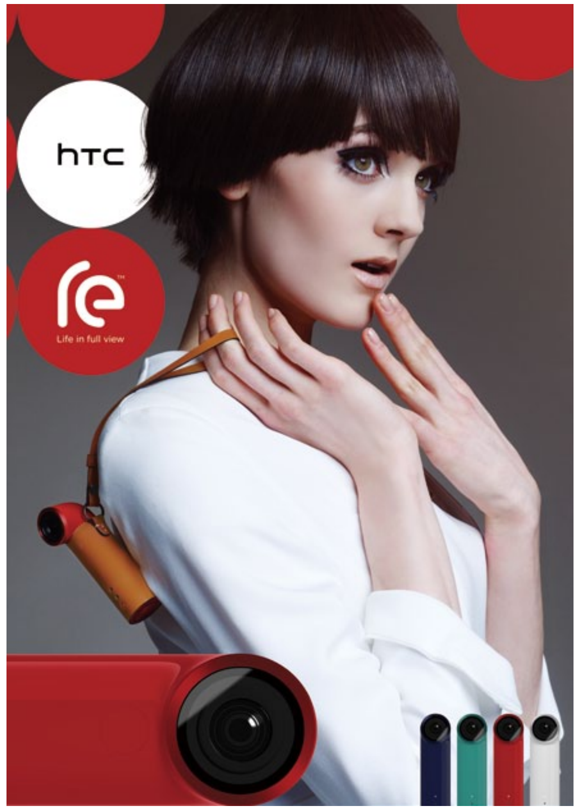
Expanding the product line. Desire the new heroes.

In 2014, HTC went beyond high-end smartphones to create a separate line of smartphones with a unique identity to attract younger consumers across both genders and geographic territories. We call this the HTC Desire product line. The HTC Desire product line is based on contemporary, fun, and fashionably chic look. It complements the HTC One product line, which is elegant and sophisticated. The creation of the HTC One and HTC Desire lines addressing 2 different consumer segments has been a core achievement in 2014, enabling HTC to address a much broader customer base.

HTC Desire products are made for a modern lifestyle with a "dress down" designer look. Similar to HTC One, it is focused on design, use of unique materials and HTC core experiences. The dual color unibody in the Desire 820, for example, was made with 2 colors from a single piece injection mold that gives it a chic modern look that is extremely durable and retains its pristine looks without the chips and color blemishes associated with traditional painting process. We are now enhancing the iconic dual color design to include dual materials that gives the HTC Desire line superior ergonomics.

The HTC Desire 8 series, including Desire 816, Desire 820 and Desire 826, are award-winning phones with accolades that matches the HTC One products. We are expanding the reach of the HTC Desire product line with the 6, 5 and 3 series. Each of these product lines will incorporate the signature Desire design language and user experience that has made HTC Desire 8 series successful.

To further elevate the HTC Desire line as a premium product franchise, HTC started introducing core innovations first on the HTC Desire franchise. For example, the HTC Desire 826 launched at



CES in Las Vegas in 2015, is a flagship in every way. It was the first HTC smartphone to use HTC BoomSound ™ with Dolby® Audio. It was also the first HTC smartphone to feature HTC UltraPixel™ front camera and was the first HTC device to ship with a 64-bit processor and software. The HTC Desire line will continue to represent a premium and modern series of phones that is in many ways as aspirational as the HTC One series.

As part of an expanding product line, in October 2014, HTC launched the HTC RE™, a remarkably fun and easy-to-use camera that allows users to capture photos and videos and while being able to simply enjoy the moment. Designed to be easy to hold, it is a comfortable camera to use and allows users to frame their shots from all sorts of angles. It switches on instantly when you hold it. This is part of the ingenious design that comes from understanding smartphones. It has one large button for capturing videos and photos and comes waterproof out-of-the-box.

With the HTC RE camera, you are instantly ready to take photos and videos of any unexpected moment. Point it in front and capture everything you see with a wide-angle lens so you never miss a moment. The built in 16-megapixel sensor is a compact camera class module that provides better performance than regular cameras found on smartphones. It connects to an application called HTC RE app available for iPhones® and Android phones to give HTC reach into the broader consumer base.

The HTC RE app allows users to view and share photos and videos instantly without connecting to a personal computer. This delivers a complete standalone mobile experience. The HTC RE app also works as an optional viewfinder if needed, and can easily configure and capture high production quality time-lapse videos. It also performs unattended backup to simplify the way you manage photos and videos. The HTC RE can easily broadcast live events in an instant, allowing users to share magical memories in real-time. The long-lasting battery in HTC RE surpasses most cameras on the market, by capturing up to 1200 photo or 100 minutes of HD video from a full charge. A wide range of fashionable, colorful and fun accessories such as mounting or carry systems are available. The HTC RE is designed to be used in every occasion and is a fashion accessory that matches consumer lifestyles.

The HTC Grip™ represents HTC's first foray into wearables by working with the fastest growing sports brand Under Armour Inc. HTC Grip is designed to help users with a passion and desire to improve their athletic capabilities and fitness. By targeting the elite segment of the fitness users, we created an aspirational product that is capable of reaching mainstream consumers. HTC Grip is a performance fitness band with a wide range of sensors built-in, including GPS and has the ability to connect with heart rate monitors. More importantly, it integrates with Under Armour Record to provide performance, training, and nutritional tips. Under Armour Record has a large social community of up to 120 million users that allows HTC Grip™ users to interact, obtain advice and seek support to help achieve fitness goals. HTC Grip excels at regular fitness activities, including tracking 24/7 information, such as steps taken, distance, calorie expanded, and sleep cycles, in addition to integration with Android and iOS based smartphones for notifications, calendar events, messages and weather.

HTC Vive™ is perhaps the most exciting new category since the smartphone. Virtual reality (VR) represents the next wave in computing and entertainment. The opportunities for expansion, ubiquity and changing the face of many industries is vast and impactful. In order to enter this new category and dominate, HTC is working with Valve Corporation to create the most immersive and premium consumer-friendly VR system.

A traditional VR system locks you to a stationary position with limited movement and hand gestures. HTC Vive allows users to see the VR world, stand up and move around in a large room area up to 15 feet by 15 feet. In addition, users can interact with objects using unique controllers that simulate the hands. By immersing users in a visual, audio, touch-and-feel, walk-around world, HTC is bringing VR into mainstream. It completely transports users to a full sensory experience unlike any other VR system. HTC Vive allows users not only to see 360 degrees – beyond their peripheral vision – including full audio, but it also recreates additional sensory experiences that allows users to walk around and explore space, touch and feel virtual objects. It has expansion ports in the developer version that can connect to peripherals that simulate additional elements like wind, heat and rain, and possibly smells. HTC Vive is a full sensory VR system that immerses users in an unbelievable experience that is truly engaging.

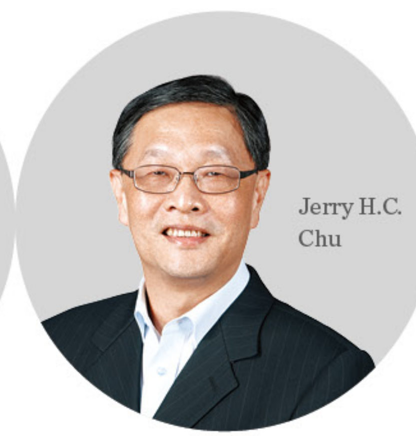
By working with best online gaming platform and one of the most prolific game developer in the world, Valve® and their Steam VR platform, HTC leverages their strong, cult-like community with over 125 million active gamers and close to 9 million concurrent users to ensure that HTC Vive becomes the gold standard for VR experience in the world.

In addition, HTC will also be working with additional partners such as HBO®, Lionsgate® and the Taiwan Palace Museum to deliver content that extends VR beyond gaming to movies and other forms of entertainment. VR represents a paradigm shift for other industries such as education, movies, shopping, travel, health & fitness, and we are working with a variety of partners across all industries to develop content for HTC Vive. The developer edition of HTC Vive will be available in spring in 2015 and the consumer version before end of 2015.

Board of directors and supervisors

Board of directors

Cher Wang	Chairwoman
Wen-Chi Chen	Director
HT Cho	Director
Chen-Kuo Lin	Independent Director
	Member of the Compensation Committee
Josef Felder	Independent Director
David Bruce Yoffie	Director



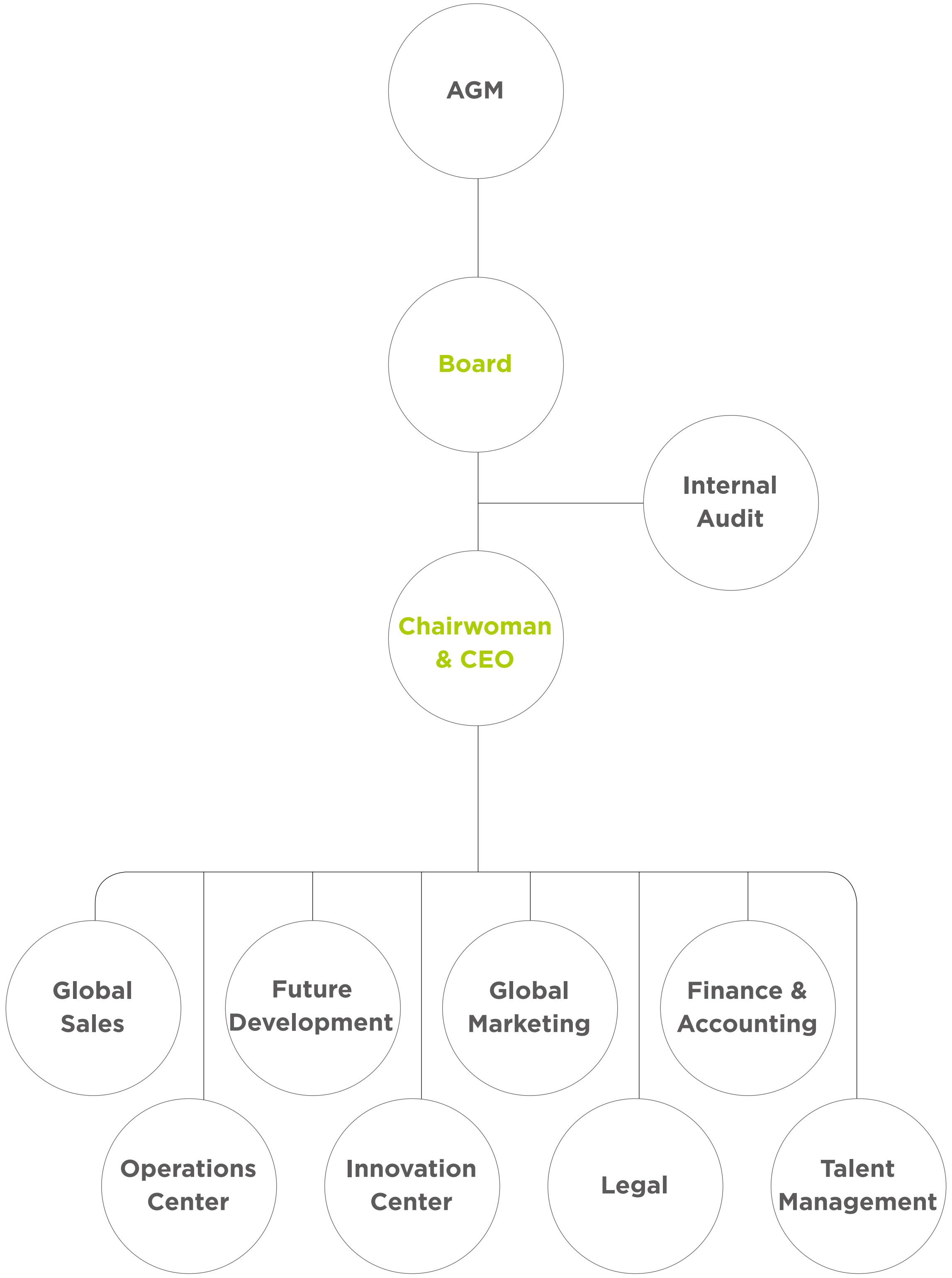
Board of supervisors

Shao-Lun Lee	Supervisor on behalf of Way-Chih Investment Co., Ltd.
Jerry H.C. Chu	Supervisor

Management team

Cher Wang	Chairwoman & Chief Executive Officer
Peter Chou	Head of Future Development
Chialin Chang	President of Global Sales & Chief Financial Officer
David Chen	Chief Operating Officer, Smartphone Business
Idris Mootee	Chief Marketing Officer
Jason Mackenzie	President of North America
Phil Blair	President of EMEA
Jack Tong	President of China & North Asia
Marcus Woo	General Counsel
Crystal Liu	Vice President
Simon Lin	Vice President
WH Liu	Vice President
Edward Wang	Vice President
James Chen	Associate Vice President

Organization



Organization functions

Innovation Center

Cher Wang (Concurrent)
Chairwoman & CEO

Conduct R&D work related to new technologies, potential future products and applications; provide results/findings to other R&D departments for further development. Responsible for market trend analysis, new product development and management, and identifying growth strategies for HTC products.

Global Sales

Chialin Chang
President of Global Sales & Chief Financial Officer

Leads the global product sales, responsible for production promotion, new customer development, customer relations, customer service and communication.

Operations Center

David Chen
Chief Operating Officer, Smartphone Business

Responsible for execution of products research and development, responsible for global production planning and management.

Future Development

Peter Chou
Head of Future Development

Responsible for leading HTC future product innovation and strategy.

Marketing

Idris Mootee
Chief Marketing Officer

Responsible for global corporate image, public relations, global branding & marketing activities strategy and execution.

Finance & Accounting

Chialin Chang (Concurrent)
President of Global Sales & Chief Financial Officer

Responsible for corporate governance, investor relations, global tax planning, cash management, investment planning, risk management, shareholder services and business and cost analyses

Legal

Marcus Woo
General Counsel

Responsible for all HTC contracts, trademarks, patents, intellectual properties, lawsuits and other legal affairs.

Talent Management

Crystal Liu
Vice President

Handle corporate human resource development and administration; promote HTC corporate culture and employee benefit programs; conduct organizational and human resource planning to support corporate development.

Internal Audit

Ken Wang
Senior Director

Inspect and review effectiveness of the internal control system and measure operational effectiveness and efficiency, reliability, timeliness, transparency and regulatory compliance of reporting, and compliance with applicable laws, regulations and bylaws.

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 the United States, Canada, the United Kingdom, Germany, France, Italy, the Netherlands, Belgium, Spain, Poland, Denmark, Belgium, Russia, China, Japan, Hong Kong, Singapore, Thailand, Myanmar, Vietnam, Indonesia, India, Malaysia, Australia, the United Arab Emirates (UAE) and Brazil.

Key HTC operation centers

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Fax:+886-3-3753251

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Fax:+886-2-89124137

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Fax:+86-21-53088889

HTC Electronics (Shanghai) Co.,Ltd.
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HTC Communication Technologies (Shanghai Limited)
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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, 2015, HTC employed 15,685 staff worldwide. 28.33% (396) of all HTC managerial positions are held by non-Taiwanese managers. Non-Taiwanese managerial and technical staff filled 13.90% of HTC managerial and technical positions. Women held 17.53% of HTC's 1,398 managerial positions.

Statistics related to the structure of human resources at HTC

(excluding outsourced labor)

Employees by Position Type

	Mar. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Management	1,398	1,438	1,514	1,473
Specialists	3,752	3,671	3,929	3,623
Administrators	1,217	1,219	1,338	1,280
Technical Staff	9,318	10,572	12,471	11,199
Total	15,685	16,900	19,252	17,575

Gender, Average Age and Average Years of Service

	Mar. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Male	8,070	8,699	9,662	9,798
Female	7,615	8,201	9,590	7,777
Average Age	30.94	30.36	29.35	31.20
Average Years of Service	3.71	3.45	2.79	1.81

Employees' Highest Level of Academic Achievement

	Mar. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Ph.D.	135	116	98	93
Master's	3,311	3,336	3,220	3,304
Bachelor's	4,829	4,695	5,342	5,202
Technical/Vocational	1,424	1,615	2,036	1,744
Other	5,986	7,138	8,556	7,232

CHAPTER

3

BUSINESS OPERATIONS

BUSINESS OPERATIONS

Industry overview

HTC is primarily smartphone manufacturer. As shown in Figure 1 below, upstream suppliers provide smartphone components and parts, and smartphone operating systems. Downstream channels include telecom service providers and distributors and retailers.

Smartphone Industry Relationship Chart:

The smartphone market has been consolidating for some time now, meaning that even though the market is still growing, growth is slowing. This has resulted in all vendors, including many new ones, turning their attention to developing markets. With industry analyst Gartner® forecasting shipment of 592M Premium Phones and 700M Basic Phones for 2015, and 5.6% and 14.6% YoY growth respectively, this market remains lucrative now and for the foreseeable future.

In 2014, whitebox tablet shipments spiked down with the recovery of PC shipments, so 2014 growth for non-whitebox tablets was flat (Gartner estimates 1.33%), so the same slowing growth dynamic now applies to tablets too. Gartner forecasts recovery in 2015 with shipments of 175M non-whitebox tablet devices and 11% YoY growth. This growth is expected to continue and is expected to be just under 10% in 2018.

As a result of this lucrative mobile opportunity, we have seen mainly new vendors enter, from Finnish startup Jolla, security and privacy focused devices like Silent Circle's Blackphone, to emerging market vendors like Cherry and Wiko, and new mobile OS entrants like Firefox OS and Ubuntu. In contrast, in March 2015, Sony announced that they are considering exiting the mobile device market, but mobile remains very strategic for them and they have a lucrative business in selling mobile device components and technologies.

Microsoft has integrated their Nokia device acquisition and have now dropped the Nokia brand from their Lumia smartphone devices. One of the runaway successes at Microsoft has been the Surface device, especially the Surface Pro 3. Microsoft is releasing Windows 10 imminently and amongst other things, it will further improve the Windows user experience on hybrid tablet-laptop devices like the Surface. Meanwhile, Nokia who are no longer in the phone market have experimented with an Android tablet manufactured by Foxconn that is now available in select markets, and is ramping up elsewhere.

John Chen, the CEO of Blackberry appears to be turning his company around and is now focused on enterprise mobility and the company's crown jewels in enterprise security and management.

While the smartphone and tablet battles continue, and while growth gradually slows in the years ahead, every leading vendor is now looking at opportunities in adjacent markets such as wearables, virtual reality, the smart home and especially the living room, and eventually broader opportunities with Internet of Things. Gartner predicts that in 2020, more than 200M wearable electronic devices for fitness will be sold, generating 15.8B in revenue.

The wearables category started most prominently with the uptake of fitness and sleep tracking bands and the accompanying trend that many refer to as the quantified self movement. Early movers included Fitbit, Jawbone, Misfit and this was rapidly followed by XiaoMi with their $13 band in 2014, and many others including Acer, Garmin, and Huawei.

2015 will see Apple's entry into smartwatches with the Apple Watch to challenge earlier movers like Pebble, Samsung, Motorola, LG, Sony, as well as a barrage of other lesser known vendors including Basis, Martian, Kronoz , Kairos, and more recently, the leading luxury brands.

In the smart glasses area, Google Glass came and went, and Sony is getting ready to ship a developer edition of their augmented reality Smart Eyeglass. The consumer use case has seen pushback from privacy advocates but the enterprise use case remains interesting, for example the head turning futuristic warehouse logistics use case with Vuzix augmented reality glasses and SAP ERP software.

In the virtual reality area, the Oculus Rift started a flurry for activity and interest in immersive virtual reality headsets for gaming and other use cases. Since then, Oculus has been acquired by Facebook last year and has worked closely with Samsung to create the Samsung Gear VR.

HTC sees an opportunity to create a compelling VR headset that delivers a market leading experience and created the HTC Vive™ that was launched at Mobile World Congress and Game Developer Conference in March 2015. Awarded best new product at MWC 2015, it was broadly covered by media including Engadget's "HTC's Vive made me believe in VR" and Business Insider's "most mind-blowing virtual reality experience ever".

These new devices are part of HTC's diversification strategy, that began with HTC RE ™ lifestyle camera, to extend the mobile lifestyle and broaden HTC's consumer reach.

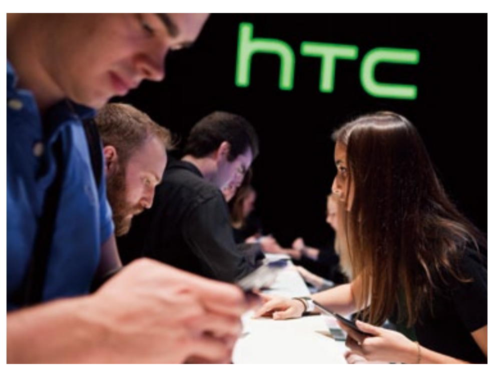
Market analysis

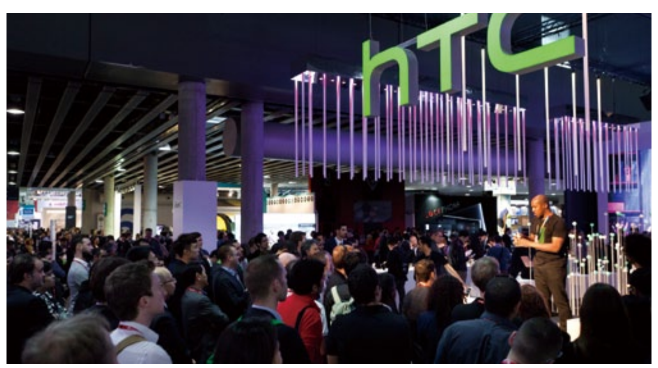
Turning to look at the top 2 vendors in this Smartphone market, Apple and Samsung, there has been an interesting development in Q4 2014, with Apple making a very strong comeback with the iPhone 6 and 6 Plus. Estimates from Gartner and Strategy Analytics show that Apple managed to displace Samsung for phone shipments for the first time in Q4 2014. In March 2015, Samsung responded by launching their Galaxy S6 and S6 Edge, which emulate HTC One's aluminum unibody and design emphasis.

The other pressure for smartphone vendors comes from the other direction. Mainland Chinese vendors are taking share in both China and overseas markets, and especially in the mid to low end. The same is happening in India where Micromax has displaced Samsung to top Indian smartphone shipments.

As the battle rages on, focus continues to shift from mere hardware specifications to polished experiences for key areas such as audio and camera, as well as enterprise security, navigation, gaming, etc. While this battle is primarily between the OS vendors, Apple and Google, leading Android device vendors including HTC have invested significant amounts of R&D to develop proprietary experiences that enhance and differentiate their devices.

The lines between smartwatches and fitness bands are merging too, with bands now keeping time and providing phone notifications, while smartwatches have started tracking activity and sleep as well, in some cases via apps built by leading fitness band vendors themselves, such as Misfit's app on Pebble. It would seem that bands





and other fitness tracking wearables will remain important for as long as there are such requirements not addressed by the watches a consumer wears.

One of the trends here would be the development of deeper capabilities for particular use cases. The HTC Grip™ band announced in March 2015 is developed with popular sports apparel brand Under Armour® with this exact goal in mind. This collaboration will bring leading edge integrated smart apparel use cases. Similarly, Garmin is focusing on pushing the envelope with navigation and outdoor fitness, Razer with social capabilities between bands, Kairos with a fashionable real mechanical watch merged with a transparent OLED display, and several vendors bringing smartwatches with built in cellular capabilities and full blown Android.

From a smartwatch OS platform perspective, the battle in 2015 will be largely between the new Apple's Watch OS, Pebble OS for Pebble Time, Google's Android Wear, Samsung's Tizen, the LG Wearables Platform, and a variety of proprietary implementations. It appears that vendors in the Android camp are eager to have more control and ownership over the software platform of their smartwatches.

Business scope

In the short-term, we sell devices in the affordable, mid-tier and super-phone categories and have extended our channel distribution beyond telecom operators and mobile retail channels into consumer electronics stores and other broader technology outlets as our brand awareness has grown. This includes our own HTC eStores in Taiwan and China, as well as the top e-commerce channels for example in India and China.

In order to differentiate our Android devices, HTC invests significantly in building an improved user experience on HTC devices, whether generally as is the case with our HTC Sense™ user experience, or for particular experiences such as camera and audio. In many cases, a superior user experience is provided not just by software but also hardware, for example, HTC Ultrapixel™, Duo Camera, HTC BoomSound™, HTC Connect™.

Our recent foray into new consumer lifestyle products, beginning with HTC RE™ camera, HTC Grip band and HTC Vive™ virtual reality headset represent new growth opportunities beyond the smartphone and tablet. Some of these new devices further enhance the HTC smartphone and tablet experience.

HTC also has a HTC Pro™ program for enterprise capabilities on our devices, and is working with Google and other partners for mobile payment capabilities.

Longer term, HTC will continue to challenge the status quo by introducing groundbreaking products that are innovative and bring delightful user experiences. We'll also invest significant resources into global marketing and cultivate the brand value via more focus on brand and loyalty to grow our business and live up to our brand promise to both consumers and shareholders. We firmly believe our determination and expertise will continue to help us meet future challenges and make HTC the first choice among smart device brands.

Business results

Market share is one of the Key Performance Indicators (KPI) in the smartphone industry. Jefferies estimates that HTC had a full year market share of just over 1.6% and was ranked 11th in market share in calendar 2014, the same position that HTC held in 2013. With 5.2% separating number 3 from number 12 in the category – it is as fiercely competitive as it is compelling.

As of the close of Q4 2014, HTC has turned an important corner and posted 3 consecutive quarters of profitability. This trend has continued for Q1 2015. This turnaround began with substantial QoQ revenue growth for Q2 2014 driven largely by success of the then newly launched flagship HTC One M8. Net Promoter Scores have reached a high of 56.31 and customers cite design, sound, camera as the top considerations leading to selecting the One M8. This was followed by continued recovery in Q3 2014, and 14% QoQ revenue growth and 12% YoY revenue growth for Q4 2014. HTC closed Q4 2014 with gross margins of 20.4% and operating margins of 0.4%. Overall, annual Consolidated Revenue was $187.9 billion, generating $40.8 billion of Gross Profit.

Brand strategy

2014 marked the start of a significant evolution for the HTC brand with the development of a renewed Brand Strategy, Visual Identity, Global Brand Management Process and Brand Architecture.

Global Purpose

The HTC brand is much more than a logo or campaign. It's a business tool that reflects our purpose, people and products. Amidst a sea of industry sameness, investing in the HTC brand helps to build emotional resonance, cultural relevance and competitive differentiation. In 2014, we looked inward to evolve our brand strategy and break through the clutter. We identified our organizational purpose to bring brilliance to life – striving everyday to develop innovation that fosters human connectiveness.

HTC has long known that true brilliance lives beyond technology. It lives in the people and passions that drive us. Inherent in what we do is the desire to better connect the world, break down barriers and bring people closer together. In 2014, we set the strategy to weave this connective thread through both the business and the HTC brand – elevating the emotional relationship between our company, culture and customers.

Global Process

A strong purpose is futile without structure in place to help it spread. During 2014, a Global Brand Management function was created to centralize brand decision-making, improve efficiency and present HTC's more unified global voice. This restructured brand management process ensures better alignment of brand and business objectives across regions, while also making more efficient use of marketing resources and media spend. The new process underpins the development and implementation of global creative platforms – allowing HTC to differentiate through a cohesive global brand story, with regional adaptation to suit distinct market needs and nuances.

In parallel with the development of the centralized brand function, a new visual identity was created to unite marketing efforts across diverse touch points, channels and regions. The new design system established a distinct style – unmistakably HTC – to ensure consistency and attribution across use cases.

Additionally, as HTC began entering new categories in 2014, it saw the creation of a new brand architecture to better support plans for innovation beyond mobile devices. While the HTC masterbrand continued to support device sub-brands such as HTC One and HTC Desire, the introduction of HTC RE™ sub-brand in fall 2014 introduced a new layer to the organizational ecosystem. HTC RE™ will serve as a dedicated innovation sub-brand to support our new initiatives within wearable technology and the broader connectivity landscape. As a high-level framework, this brand architecture will serve to support diversification while generating a halo effect across products and supporting scalability over time.

The Social Shift

Social engagement is embedded in HTC's commitment to fostering human connectiveness. The renewed brand strategy intentionally sets up HTC for success in a rapidly changing media environment that is evermore rooted in social. In 2014, elevated emphasis was placed on better utilizing social technologies and non-traditional marketing channels to create conversation and drive consumer relevance. Whereas competitors faced off in an arms race for Share of Voice, the HTC brand began its shift toward better contextual media integration to engage audiences in the right ways at the right times in the right places.

We've launched HTC Community forum in Taiwan and China in 2014, and will later roll it out to India and the US. The increase of fan engagement improves brand awareness, loyalty, and helps HTC design products more closer to users' needs. HTC was presented in 369 million feeds across Facebook and Twitter in 2014, 126 growth compared to 2013. Total engagement was 19.2 million at the October "Double Exposure" event resulted a significant increase. HTC was the first brand to leverage native Facebook video prioritization which helped drive more exposure and engagement.

Marketing

2014 proved to be a very exciting marketing year for HTC. Building on the success of the HTC One M8 launch in late March, HTC continued to raise the bar and cement its positioning as a leader of innovation in the category with both standout products and advertising that successfully captured our consumers' imagination and attention.

To coincide with the launch of the HTC One M8, HTC developed a campaign titled "Ask the Internet", starring Gary Oldman, which empowered consumers to look at consumer and product reviews of the new HTC One M8 online. It was a bold and confident approach to stand behind the numerous excellent reviews and awards the product has received, while demonstrating our view of our consumers as independent thinkers who form their own opinions and won't be swayed by traditional marketing. The campaign ramped up consumer engagement and positive sentiments, increasing advertising awareness among targeted audience by 40%.

Consistently a global leader in technology innovation and design, in October 2014, HTC heralded a new era of innovation – and an exciting new direction for the business – with the introduction of a suite of breakthrough imaging products. Hosting an event on October 8th in New York, aptly named "Double Exposure", we launched HTC RE, a remarkable and fashionably designed little handheld camera; the HTC Desire EYE, a brand new category-shifting phone; the HTC Eye™ Experience enhanced imaging software; and Zoe™, a collaborative video editing community. The event was streamed globally and the media responded positively.

Fashion magazine Vogue Italia also covered the story as the collaboration of fashion and technology, captioned that Israeli fashion designer Noa Raviv sent a host of models down a unique fashion-meet-tech runway show. Renowned for integrating 3D-printed elements into ruffled garment influenced by distorted digital drawings, the clean line and simplicity of her designs represent HTC's own philosophy of utilizing cutting edge materials in its product development.

A new spot design was unveiled at the Mobile World Congress in Barcelona to coincide with the launch of the highly anticipated HTC One M9 phone, the third generation of an iconic design. While people called HTC One M8 the most beautiful smartphone on the market, we didn't stop there, but rather challenged 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 an 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 alike, and we are very optimistic that sales will reflect this early enthusiasm when the phone becomes available in April 2015.

Having built equity in the brand based on the strong performance of the HTC One products, we next sought to build an emotional connection and position HTC as more than just a manufacturer or technology company in the minds of the consumer. The launch of the HTC One M9 provided the ideal platform to launch our new brand positioning to the world and build this connection.

Enlisting the world's biggest star, Robert Downey Jr., once again, HTC set out to tell its story and share its point of view in a thematic 60 second commercial, titled "One". Narrated by RDJ, the campaign brought to life our brand idea of "fostering human connectiveness" by showcasing beautiful scenes of how people are united around the world, and that, despite our perceived differences, we are really all one. At the center of the story, facilitating this human connection, was the beautifully designed HTC One M9.

The launch of the HTC One M9, our best smartphone yet, was not the only exciting news we had to share in Barcelona. We also had some category-defining news to share under our HTC RE™ brand umbrella. In partnership with Under Armour, we launched HTC Grip™, a fitness band that combines the world's premier connected fitness brand and our design expertise to improve the way you train, perform and live.

We see technology that transforms the world. Virtual reality has been a dream of technology enthusiasts for decades, and in recent years, we have seen the first forays forays into creating that experience – but no one has successfully defined what the ideal experience is. That is, until we proudly introduced HTC Vive™, a virtual reality experience the world has never seen before. Launched in partnership with Valve, the global leader in gaming, we are confident that HTC Vive will set the new industry standard, bringing consumers the most breathtaking and immersive virtual reality experience in the world. The response to HTC Vive has been overwhelming. At Mobile World Congress in 2015, HTC Vive was awarded "Best in Show" and also received many accolades from media. HTC Vive was named "2015 MWC Top Picks" by Android Central, "Best in Show at MWC 2015" by Tech Radar, "MWC 2015 Best of Show" by Digital Trends amongst many others. We are very excited to see the consumer response as the product rolls out in the latter half of 2015.

Progress in research & development

Since its inception, HTC has invested consistently to solidify in-house R&D capabilities. Today, R&D professionals account for almost 30% of HTC's headcount, and annual R&D investments regularly represent 3 to 4 percent of total revenues. HTC products are frequent 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 enhanced and enrich the HTC user experience.

HTC has earned its leading position in the smartphone sector through innovation and 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 a 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 choices 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 disrupts the traditional mobile experience, and features 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 uses HTC UltraPixel™ -powered camera to bring image galleries to life. It redefines 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. The awards affirmed once more that design and innovation are a key part of HTC's DNA.

In October 2013, the user experience of the HTC One M7 was enhanced even further with the release of the HTC One Max. A super-large 5.9" Full HD display and metallic construction provides users, especially business people or avid readers, with a superb reading experience and viewing angle. The back of the one-piece metallic casing incorporates a fingerprint scanner for high-precision fingerprint recognition that offers secure login for improved smartphone data protection. Placement on the back of the phone allows for one-handed unlocking and authentication, creating a truly convenient one-touch unlocking mechanism. The HTC One Max also comes with a compact HTC Mini+ Bluetooth smart receiver. A thickness of 7.15mm and T9 keyboard offer users a dialing experience just like using a speaker phone. In addition to using the physical keys on the T9 for dialing, HTC's smart search function can quickly search contacts for a peerless fast dialing and search experience. The 1.5″ OLED display is synchronized to HTC One Max incoming calls, missed calls, messages and notifications for swifter response. More importantly, all of these operations can be completed without having to take the HTC One Max out of the user's pocket, backpack or briefcase. In addition, for business people giving presentations, the HTC Mini+ equips a laser pointer and infra-red remote function to integrate with the presentation software to provide business people a very practical tool. The combination of large and small device perfectly combines the functionality of a large form-factor with convenience, demonstrating once again HTC's commitment to optimizing user experience to its highest design principle. Every feature of the product design serves as a testament to HTC's completely user-oriented design philosophy.

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 is 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%, providing an even more sophisticated sound range and incomparable 3D sound effects. The proprietary Duo Camera can instantly acquire depth-of-view information and provide 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. The original recording pause function allows users to have more control over their images. All of these advanced camera functions enrich the content and experience offered by HTC's popular Video Highlight dynamic photo album. Due to the increasing importance of exercise and fitness for modern people, the HTC One M8 has an integrated Smart Sensor Hub that intelligently records all exercise activity of the user. Full integration with Fitbit provides a full record of fitness fun. 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. Examples include sliding to unlock screen in standby mode, opening the HTC BlinkFeed™ home screen, opening the function home screen, launching the voice control function, double-tapping the screen to wake, take incoming calls, or pressing the volume control to launch the camera. The HTC One M8 incorporated all of these functions without compromising the battery life. More demanding conditions and specifications extend battery life by 40% while the extreme power-saving function increases the standby time to two weeks. Even if battery life is down to 20%, the HTC One M8 can still offer 60 hours of standby time. 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.

The latest family member of HTC Desire family, Desire 820, was announced before IFA, a consumer electronics show in Berlin. With a 5.5″ ultra large screen, the field of view is very broad. Also, with 7.74 mm thin body, a single hand is sufficient for holding easily. Through the unique color mosaic technology of HTC, there is a double shot molded housing to result in aesthetics of integrated double colors, such that the shell of Desire 820 is not only colorful and bright, but also quality balanced and durable. It is also the first model with 64-bit 8-core processor in the world, leading Android smart phone to the 64-bit core era. The enhanced 8-core 64-bit CPU (Central Process Unit) and GPU (Graphic Process Unit) facilitate to more natural screen,

faster operation speed, such that either Email accessing, webpage browsing, video playing, or even multiple unique leading front/back-camera capabilities allow smooth and fast operation. Through optimization of OS (Operating System) and HTC Sense™, battery service life is balanced under very high processing performance to develop the multiplexing performance of the phone. HTC Desire 820 also supports 4G LTE (Cat. 4), in which the ideal maximum download speed is up to 150 Mbps and the ideal maximum upload speed is up to 50 Mbps. Subsequently, HTC Desire 820 Dual Sim model, which supports double-card double-network, was released in Taiwan and China regions. It may be used in conjunction with either 4G LTE, 3G, or 2G SIM card. It also supports dual-mode 4G LTE in Taiwan and China regions. In conjunction with built-in double-network manager, networks may be switched as need without changing nano sim card.

HTC Desire EYE was released on October 9, 2014 in New York. In addition to 5.2″ Full HD screen together with front/back 13 million pixels camera, built-in exclusive front lens double-color temperature LED flash lamp is used. Amazing photo and image are available through the Qualcomm Snapdragon801 quad-core processor in addition to built-in self-timer tool for immediate editing. The dual front stereo speaker in conjunction with 3 microphones and Sense Voice enhanced features for HTC BoomSound™ bring you surprised audio and voice definition. Meanwhile, completely new HTC Eye™ Experience was released with a variety of high performance and useful camera features, comprising Face Tracking, Screen Share, Split Capture, Face Fusion, Live Makeup, Auto Selfie, Voice Selfie, Photo Booth, Crop-Me-In etc. Through face recognition tracking, conference call is formed as split screens to show synchronously. With real time tracking and image process, the head of the major role in the call is always located on the center of the screen, so that easy and clear conference call is available for users. As for artistic formation, HTC Desire EYE initiates Double Shot design for smooth curve, smooth surface and color contrast appearance to fit various styles. Moreover, the waterproof design of IPX7 is added to the artistic design of HTC Desire EYE. In addition to specially designed exclusive camera shutter key and shined HTC Dot View™ protective shell, the originally monotonous phone becomes colorful.

At the same event in New York, we unveiled the HC RE™ camera, a completely new, interesting and easy to use lifestyle camera. Lightweight at only 66g, a smart detector senses when the camera is picked up, and activates HTC RE into sleep mode, such that the user may press the shutter key for photography at any time. The intuitive single-key operation style allows the user to switch different modes (photography and recording) smoothly without cumbersome settings of camera that will distract the user. The built-in battery allows HTC RE to keep in sleep mode for two months, so that the user never has to worry about repetitive charging issues. Without dual viewfinder, HTC RE is lighter, yet it is easy for a user to take pictures and record videos without viewfinder. In order to keep integral image information, HTC RE™ camera collects more and broader image information easily through its 16 million pixels image sensor with unique 146° wide angle lens and 1/2.3" and f2.8 large aperture. More information can be accommodated easily especially in self-timer situation without worrying about missing important characters and views. In response to a variety of operation scenarios, HTC RE also provides IPX7 waterproof grade for it to be operated within 1 meter under water. With exclusive waterproof cover protective kit, the waterproof grade of IPX8 is upgraded to 3 meters, such that HTC RE can be used in water safely to take interesting vivid pictures. HTC RE can also pair with Android and iOS phones to stream images and photos to the phone. The user can edit them effortlessly and share by using a single key through HTC RE App, which is not only a content browser, but also a live viewfinder to map all things seen by HTC RE . After the pairing of device, all photos and videos will appear on the phone by simply activating HTC RE App. Furthermore, automatic backup of photos and videos in cloud is available for easy access and sharing anywhere. Time-lapse video of HTC RE can also be set up using HTC RE App to take professional and amazing time-lapse videos.

HTC and Google together released Nexus 9 tablet on October 16, 2014. The 8.9" 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, so that the user may balance work and entertainment. The attach-to-go, responsive removable Bluetooth keyboard and protective cover allow you 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 an 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. The launch of the HTC One M9, our best smartphone yet, was not the only exciting news we had to share in Barcelona. We also had some category-defining news to share under our HTC RE brand umbrella. In partnership with Under Armour, we launched HTC Grip™ , a fitness band that combines the world's premier connected fitness brand and our design expertise to improve the way you train, perform and live. HTC also proudly introduced HTC Vive™ , a virtual reality experience the world has never seen before. Launched in partnership with Valve, the global leader in gaming, we are confident that HTC Vive will set the new industry standard, bringing consumers the most breathtaking and immersive virtual reality experience in the world.

R&D Expenditures in Recent Years

Unit: NT$ millions

	2014	2013	2015Q1
Worldwide R&D Expenditures	13,047	12,543	3,443
As a Percentage of Worldwide Revenue	7%	6%	8%

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 second 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, quarterly earnings calls are held for investors every quarter, at which revenue, margin and expense forecasts are provided. Investor teleconferences are also held to keep investors updated on the latest business operations. Apart from regular disclosures, HTC also participates actively in investor forums and conferences 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

	2014		
Supplier Code	Amount	%	Relation to HTC
a	20,628	13	None
Others	144,056	87	
Total	164,684	100	

	2013		
Supplier Code	Amount	%	Relation to HTC
a	22,566	18	None
Others	100,375	82	
Total	122,941	100	

	2015Q1		
Supplier Code	Amount	%	Relation to HTC
a	6,016	21	None
Others	22,101	79	
Total	28,117	100	

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

Unit: NT$ millions

	2014		
Customer Code	Amount	%	Relation to HTC
Major customers representing at least 10% of gross revenue	N/A	N/A	
Others	187,911	100	
Total	187,911	100	

	2013		
Customer Code	Amount	%	Relation to HTC
Major customers representing at least 10% of gross revenue	N/A	N/A	
Others	203,403	100	
Total	203,403	100	

	2015 Q1		
Customer Code	Amount	%	Relation to HTC
A	5,313	13	None
B	4,367	10	None
Others	31,844	77	
Total	41,524	100	

Production and Sales for the Most Recent Two-Year Period

(1) Production

Unit: 1,000 units / NT$ millions

2014

	Production Capacity	Production Quantity	Production Value
Smartphones	37,570	15,623	92,250
Total	37,570	15,623	92,250

2013

	Production Capacity	Production Quantity	Production Value
Smartphones	38,550	20,345	129,184
Total	38,550	20,345	129,184

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

2014

	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	2,146	18,797	82,181	166,132
Total	2,146	18,797	82,181	166,132

2013

	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	3,024	19,653	97,233	180,555
Total	3,024	19,653	97,233	180,555

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 agreements, as follows:

Contractor	Contract Term	Description
Apple, Inc.	November 11, 2012 - November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalty payable as prescribed.
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on 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, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
	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.
Telefonaktiebolaget LM Ericsson (PUBL)	2014.12.31 ～ 2016.12.31	Authorization to use wireless technology, like GSM; Royalty payment based on agreement.

CHAPTER

4

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)

2015.04.30 unit: Share, %

Title	Nationality/ place of Registration	Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Sharing (Note)		Other persons holdingshares in their name(Note)	
						Shares	%	Shares	%	Shares	%	Shares	%
Chairwoman	Republic of China	Cher Wang	2013.06.21	2016.06.20	1999.04.30	32,272,427	3.79%	32,272,427	3.90%	22,391,389	2.70%	0	0.00%
Director	Republic of China	HT Cho	2013.06.21	2016.06.20	2001.04.23	145,530	0.02%	96,530	0.01%	0	0.00%	0	0.00%
Director	Republic of China	Wen-Chi Chen	2013.06.21	2016.06.20	1999.04.30	22,391,389	2.63%	22,391,389	2.70%	32,272,427	3.90%	0	0.00%

Name	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		
			Title	Name	Relation
Cher Wang	· Bachelor in Economics, University of California, Berkeley. · General Manager of the PC Division, First International Computer, Inc. (FIC)	· Chairwoman, VIA Technologies, Inc. · Director, Formosa Plastics Corporation · Chairwoman (Representative), H.T.C. (B.V.I) Corp. · Chairwoman (Representative), HTC Investment One (BVI) Corporation · Chairwoman (Representative), Chander Electronics Corp. · Non-executive Director, Television Broadcasts Limited Director, · Director, Way-Chih Investment Co., Ltd. · Director, Hsin-Tong Investment Co., Ltd. · Director, Kun-Chang Investment Co, Ltd.	Director	Wen-Chi Chen	Spouse
HT Cho	· Electronic Engineering, National Taipei Institute of Technology. · EMBA, National Chiao Tung University · President & CEO, HTC Corporation. · Consulting Engineer, Digital Equipment Corporation.	· Chairman, HTC Social Welfare Foundation. · Chairman, HTC Education Foundation. · Director, Chunghwa Telecom Foundation. · General Manager, Atrust Corporation · Director, China University of Technology · Director, Asia Pacific Fuel Cell Technologies, Ltd. · Chairman, Taiwan Chief Executive Officer Club for Social Benefit	None	None	None
Wen-Chi Chen	· MSCS, California Institute of Technology. · President, Symphony Laboratories.	· President & Director, VIA Technologies, Inc. · Chairman (Representative), Xander International Corp. · Non-executive Director, Television Broadcasts Limited · Director, Way-Chih Investment Co., Ltd. · Director, Hsin-Tong Investment Co., Ltd. · Director, Kun-Chang Investment Co, Ltd.	Chairwoman	Cher Wang	Spouse

(Continued)

2015.04.30 unit: Share, %

Title	Nationality/ place of Registration	Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected Shares	Shareholding When Elected %	Current Shareholding (Note) Shares	Current Shareholding (Note) %	Spouse & Minor Sharing (Note) Shares	Spouse & Minor Sharing (Note) %	Other persons holdingshares in their name(Note) Shares	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 Title	Name	Relation
Director	USA	David Bruce Yoffie	2013.06.21	2016.06.20	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	· B.A. Brandeis University · M.A., Ph.D. Stanford University for academic qualification · Director, Charles Schwab · Director, Spotfire · Director, E Ink	· Max and Doris Starr Professor at Harvard Business School · Director, Intel Corporation · Director, The National Bureau of Economic Research · Director, Financial Engines, Inc. · Director, TiVo Inc.	None	None	None
Independent Director	Republic of China	Chen-Kuo Lin	2013.06.21	2016.06.20	2007.06.20	0	0.00%	0	0.00%	0	0.00%	0	0.00%	· Bachelor in Economics, National Taiwan University. · Advanced study at the Department of Economics, Oklahoma State University. · Advanced study at the Department of Economics, Harvard University. · Chairman, Board of Tunghai University. · Minister, Ministry of Finance, Executive Yuan. · Chairman, Taiwan External Trade Development Council.(TAITRA) · Chairman, Taiwan Asset Management Corporation. · Professor, Department of Economics in National Taiwan University. · Chairman, Taiwan-Hong Kong Economic and Cultural Cooperation Council	· Independent director and Compensation Committee member, Taiwan High Speed Rail Corporation. · Chairman, Angel Hearts Family Social Welfare Foundation. · Chairman, New Mainstream Cultural Foundation.	None	None	None
Independent Director	Swiss Confederation	Josef Felder	2013.06.21	2016.06.20	2007.06.20	133,985	0.02%	229,985	0.03%	0	0.00%	0	0.00%	· Graduate of Advanced Management Program (AMP), Harvard Business School, Boston · Deputy Director, Crossair · Chief Executive Officer, FIG (Flughafen Immobilien Gesellschaft) · Chief Executive Officer, Unique (Flughafen Zurich AG)	· Independent director, Careal Holding AG, Zurich · Independent director, AMAG, Zürich · Independent director, Zingg-Lamprecht AG, Zurich · Independent director, Edelweiss Air AG, Zurich · Chairman, Gutsbetrieb Oetlishausen AG, Hohentannen · Chairman, Pro Juventute, Zurich · Independent director, Luzerner Kantonalbank AG, Lucerne · Independent director, Victoria Jungfrau Collection, Interlaken · Chairman, Flaschenpost AG, Zürich · Chairman, The Nuance Group · Independent Director, Zino Davidoff SA, Fribourg	None	None	None
Supervisor	Republic of China	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	2013.06.21	2016.06.20	1999.04.30 2006.04.13	43,819,290	5.14%	43,819,290	5.29%	0	0.00%	0	0.00%	· Ph.D in Material Science and D.Eng in Electrical Engineering, UCLA. · Executive Vice President, Lam Research Co., Ltd.	· Director, IC Broadcasting Co., Ltd · Vice President, VIA Technologies, Inc. · Director, Chinese Christian Faith, Hope and Love Foundation. · Director, Via Faith, Hope and Love Foundation.	None	None	None
Supervisor	Republic of China	Huang-Chieh Chu	2013.06.21	2016.06.20	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	· MBA, University of Toronto, Canada · LL.B., Department of Law, National Taiwan University · Director and President, Taiwan Teleservices & Technologies Co., Ltd. · Supervisor, Taiwan Fixed Network Co., Ltd. · Vice President, Consumer Business Group of Taiwan Mobile Co., Ltd. · Vice President, Citibank, N.A., Taipei Branch · Director, KG Telecommunications Co., Ltd.	· Chief Administrative Officer, Via Faith, Hope and Love Foundation.	None	None	None

Note: Shareholding as of 2015.04.04

2. Major shareholders of Institutional Shareholders

2015.04.30

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)

2015.04.30

Conditions / Name		Meet one of the following professional qualification requirements, together with at least five years work experience			Conforms to criteria for independence (note)										
		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	9	10	Number of other public companies concurrently serving as an independent director
Chairwoman	Cher Wang			V							V		V	V	0
Director	HT Cho			V	V		V	V	V	V	V	V	V	V	0
Director	Wen-Chi Chen			V							V		V	V	0
Director	David Bruce Yoffie	V		V	V	V	V	V	V	V	V	V	V	V	0
Independent Director	Chen-Kuo Lin	V		V	V	V	V	V	V	V	V	V	V	V	1
Independent Director	Josef Felder			V	V	V	V	V	V	V	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	V	V	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, andManagers of all divisions and branch units:

2015.04.30 Unit: Share; %

Title	Nationality	Name	Date Elected	Shareholding (note) Shares	%	Spouse & Minor Shareholding (note) Shares	%	Other persons holding shares in their name (note) Shares	%	Principal work experience and academic qualifications	Positions held concurrently in the company and/or and other company	Managers with spouses or relatives within second-degree of kinship Title	Name	Relation
CEO & President	Republic of China	Cher Wang	2015.03.20	32,272,427	3.90%	22,391,389	2.70%	0	0.00%	· Bachelor in Economics, University of California, Berkeley. · General Manager of the PC Division, First International Computer, Inc. (FIC)	· Chairwoman, Via Technologies, Inc. · Director, Formosa Plastics Corporation · Chairwoman (Representative), H.T.C. (B.V.I) Corp. · Chairwoman (Representative), HTC Investment One (BVI) Corporation · Chairwoman (Representative), Chander Electronics Corp. · Non-executive Director, Television Broadcasts Limited Director, · Director, Way-Chih Investment Co., Ltd. · Director, Hsin-Tong Investment Co., Ltd. · Director, Kun-Chang Investment Co, Ltd.	None	None	None
Head of Future Development	Republic of China	Peter Chou	2015.03.20	4,558,843	0.55%	595,019	0.07%	0	0.00%	· Bachelor in Electronic Engineering, National Taiwan Ocean University. · Director, Server Platform Design Division, Digital Equipment Corporation.	· Director (Representative), High Tech Computer Asia Pacific Pte. Ltd. · Chairman (Representative), HTC Investment Corporation · Chairman (Representative), HTC I Investment Corporation · Director (Representative), S3 Graphics Co, Ltd. · Director (Representative), HTC EUROPE CO. LTD. · Director (Representative), HTC America, Inc. · Director (Representative), HTC Philippines Corp. · Director, High Tech Computer Corp. (Suzhou) · Chairman (Representative), Huada Digital Corporation · Chairman (Representative), HTC Communication Technologies (Beijing) Co. Limited	None	None	None
President of Global Sales & Chief Financial Officer	Republic of China	Chialin Chang	2012.04.16	0	0.00%	0	0.00%	0	0.00%	· PhD in Electrical Engineering, Princeton University. · MBA, The Wharton School of the University of Pennsylvania. · Partner, Goldman Sachs. · Engineer, Motorola (US).	· Director (Representative), HTC America, Inc. · Chairman (Representative), HTC Communication Co., Ltd	None	None	None
Chief Operating Officer, Smartphone Business	Republic of China	David Chen	2007.05.08	465,273	0.06%	293,901	0.04%	0	0.00%	· Bachelor in Electronic Engineering, National United College. · Principal Engineer, Digital Equipment Corporation.	· Chairman (Representative), HTC Communication Technologies (Shanghai) Limited · Chairman (Representative), Communication Global Certification Inc. · Director (Representative), HTC Communication Technologies (Beijing) Co. Limited	None	None	None
General Counsel	USA	Marcus Woo	2014.10.31	0	0.00%	0	0.00%	0	0.00%	· PhD in Law, Indiana University · Vice President, Chunghwa Picture Tubes	· Chairman (Representative), HTC Investment Corporation · Chairman (Representative), HTC I Investment Corporation	None	None	None
President of North America	Venezuelan	Jason Mackenzie	2007.09.26	23,974	0.00%	0	0.00%	0	0.00%	· Bachelor in Business Administration, Point Loma Nazarene University. · Vice President, Siemens Communications.	· Director (Representative), HTC Communication Canada, Ltd. · Director (Representative), HTC Communications Solutions Mexico S.A. de C.V. · Director (Representative), HTC Servicios de Operation Mexico, S.A. de C.V.	None	None	None
President of EMEA	UK	Philip Blair	2013.05.01	65,103	0.01%	0	0.00%	0	0.00%	· MBA, Durham University, UK · Head of Handset Commercialisation, Orange Group (London)	· Director (Representative), HTC Communication Sweden AB · Director (Representative), HTC Poland sp z.o.o · Director (Representative), HTC Germany GmbH · Director (Representative), HTC Iberia S.L.U. · Director (Representative), HTC Italia SRL · Director (Representative), HTC RUS LLC. · Director (Representative), HTC Nordic ApS · Director (Representative), HTC France Corporation · Director (Representative), HTC Norway AS. · Director (Representative), HTC Middle East FZ-LLC	None	None	None
President of China & North Asia	Republic of China	Jack Tong	2007.07.01	8,858	0.00%	0	0.00%	0	0.00%	· Bachelor in Civil Engineering, Feng Chia University. · Chief Executive Officer, Dopod International Corp.	· Director (Representative), HTC Communication Co., Ltd. · Director (Representative),HTC Vietnam Services One Member Limited Liability Company · Director (Representative), HTC HK, Limited	None	None	None

(Continued)

2015.04.30 Unit: Share; %

Title	Nationality	Name	Date Elected	Shareholding (note) Shares	Shareholding (note) %	Spouse & Minor Shareholding (note) Shares	Spouse & Minor Shareholding (note) %	Other persons holding shares in their name (note) Shares	Other persons holding shares in their name (note) %	Principal work experience and academic qualifications	Positions held concurrently in the company and/or and other company	Managers with spouses or relatives within second-degree of kinship Title	Name	Relation
Vice President	Republic of China	Crystal Liu	2012.04.24	0	0.00%	0	0.00%	0	0.00%	· MBA, Oklahoma City University. · HR Director, DuPont · APAC Business Group HR Manager, Intel Microelectronics Asia Ltd. · HR Manager, BRS Nike Taiwan	· General Manager, HTC Middle East FZ-LLC	None	None	None
Vice President	Republic of China	Simon Lin	2008.06.01	250	0.00%	0	0.00%	0	0.00%	· Master in Electrical Engineering, University of Texas. · Director, R&D, Digital Equipment Corporation.	· Director (Representative), HTC Electronics (Shanghai) Co., Ltd.	None	None	None
Vice President	Republic of China	WH Liu	2008.06.01	58,675	0.01%	0	0.00%	0	0.00%	· Master in Electronic Engineering, National Taiwan University of Science and Technology. · Senior Manager, WM System Architecture Design.	· Director (Representative), HTC Communication Technologies (Shanghai) Limited	None	None	None
Vice President	Republic of China	Edward Wang	2009.03.10	0	0.00%	0	0.00%	0	0.00%	· MBA, Tunghai University. · VP, Hotung Group.	· Director (Representative), HTC Investment Corporation · Director (Representative), HTC I Investment Corporation · Director (Representative), HTC Holding Cooperatief U.A. · Director (Representative), HTC (Australia and New Zealand) PTY LTD · Director (Representative), HTC India Private Limited · Director (Representative), HTC Malaysia Sdn. Bhd. · Director (Representative), HTC Belgium BVBA/SPRL · Director (Representative), HTC Nordic ApS · Director (Representative), HTC Iberia S.L.U. · Director (Representative), HTC Poland sp zo.o. · Director (Representative), HTC Communication Canada, Ltd. · Director (Representative), HTC Norway AS. · Director (Representative), HTC RUS LLC. · Director (Representative), HTC Communication Sweden AB · Director (Representative), HTC Luxembourg S.a.r.l. · Director (Representative), One & Company Design, Inc. · Director (Representative), HTC NIPPON Corporation · Director (Representative), HTC America Holding, Inc. · Director (Representative), HTC America Content Serices, Inc. · Director (Representative), Dashwire, Inc. · Director (Representative), Inquisitive Minds, Inc · Supervisor, HTC Communication Co., Ltd. · Supervisor (Representative), Huada Digital Corporation · Supervisor (Representative), PT. High Tech Computer Indonesia · Director (Representative), HTC (Thailand) Limited · Director (Representative), HTC Middle East FZ-LLC · Director (Representative), HTC Myanmar Company Limited · Director (Representative),HTC Communications Solutions Mexico, S.A. de C.V. · Director (Representative),HTC Servicios de Operacion Mexico, S.A. de C.V.	None	None	None
Associate Vice President	Republic of China	James Chen	2009.02.10	200	0.00%	0	0.00%	0	0.00%	· MBA, National Chen-Chi University. · Manager, TSMC. · BU Controller, LITE-ON.	· Supervisor (Representative), Communication Global Certification Inc. · Director (Representative), HTC America Innovation, Inc. · Supervisor, HTC Communication Technologies (Shanghai) Limited · Supervisor, HTC Corporation (Shanghai WGO) · Supervisor, HTC Electronics (Shanghai) Co., Ltd. · Chairman(Representative), Yoda Co., Ltd. · Director (Representative), HTC (Australia and New Zealand) PTY LTD · Director (Representative), HTC India Private Limited · Director (Representative), HTC Myanmar Company Limited · Supervisor (Representative), HTC Communication Technologies (Shanghai) Co. Limited · Supervisor (Representative), High Tech Computer (SuZhou)	None	None	None

Note：Shareholding as of 2015.04.04

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

1. Remuneration paid to Directors (including Independent Director)

2014；Unit：NT$ thousands

		Remuneration paid to Direcotrs								Total Remuneration (A+B+C+D) as a percentage of net income (%)	
		Salary (A)(Note 1)		Retirement pay (B)		Compensation from profit sharing (C) (Note 2)		Allowance (D) (Note 3)			
Title	Name	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)
Chairwoman	Cher Wang	29,336	29,336	0	0	0	0	0	0	1.98%	1.98%
Director	HT Cho										
Director	Wen-Chi Chen										
Director	David Bruce Yoffie										
Independent Director	Chen-Kuo Lin										
Independent Director	Josef Felder										

		Compensation earned as employee of HTC subsidiary affiliates												Total Compensation (A+B+C+D+E+F+G) as a percentage of net income (%)		Compensation paid to Directors from non-subsidiary affiliates (Note 8)
		Salary,Bonuses, and Allowance (E)(Note4)		Retirement pay (F)		Employee profit sharing (G) (Note5)				Exercisable Employee Stock Options (H) (Note 6)		Restricted employee shares (Note 9)				
						HTC		All Consolidated Entities (Note 7)								
Title	Name	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	Cash	Stock	Cash	Stock	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	HTC	All Consolidated Entities (Note 7)	
Chairwoman	Cher Wang	0	0	0	0	0	0	0	0	0	0	0	0	1.98%	1.98%	0
Director	HT Cho															
Director	Wen-Chi Chen															
Director	David Bruce Yoffie															
Independent Director	Chen-Kuo Lin															
Independent Director	Josef Felder															

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's earnings distribution proposal.
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 bonuses when Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) received employee bonuses (including stock and cash bonuses) in the most recent fiscal year.
Note 6: Number of shares represented by employee stock warrants (not including the portion already exercised) received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) up to the date of printing of this annual report.
Note 7: Total amount of all remunerations paid to Directors by all consolidated entities (including HTC).
Note 8: 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-subsidiary affiliate.
Note 9: Number of shares represented by restricted employee shares (not including the portion already exercised) received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) up to the date of printing of this annual report.

＊ 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 Directors

	Name			
	Total Remuneration (A+B+C+D)		Total Remuneration(A+B+C+D+E+F+G)	
Scale of remunerations to Directors of the Company	HTC	All Consolidated Entities	HTC	All Consolidated Entities
Under NT$ 2,000,000	Cher Wang, Wen-Chi Chen	Cher Wang, Wen-Chi Chen	Cher Wang, Wen-Chi Chen	Cher Wang, Wen-Chi Chen
NT$ 2,000,000 ～ NT$ 4,999,999	HT Cho, Chen-Kuo Lin	HT Cho, Chen-Kuo Lin	HT Cho, Chen-Kuo Lin	HT Cho, Chen-Kuo Lin
NT$ 5,000,000 ～ NT$ 9,999,999	Josef Felder	Josef Felder	Josef Felder	Josef Felder
NT$ 10,000,000 ～ NT$ 14,999,999	David Bruce Yoffie	David Bruce Yoffie	David Bruce Yoffie	David Bruce Yoffie
NT$ 15,000,000 ～ NT$ 29,999,999				
NT$ 30,000,000 ～ NT$ 49,999,999				
NT$ 50,000,000 ～ NT$ 99,999,999				
Over NT$ 100,000,000				
Total	6	6	6	6

2. Remuneration paid to Supervisors

2014：Unit：NT$ thousands

Title	Name	Remuneration paid to Supervisors: Salary (A) (Note 1): HTC	Salary (A) (Note 1): All Consolidated Entities (Note 4)	Compensation from profit sharing (B) (Note 2): HTC	Compensation from profit sharing (B) (Note 2): All Consolidated Entities (Note 4)	Allowance (C) (Note 3): HTC	Allowance (C) (Note 3): All Consolidated Entities (Note 4)	Total Remuneration (A+B+C) as a percentage of net income (%) (Note 4): HTC	Total Remuneration (A+B+C) as a percentage of net income (%) (Note 4): All Consolidated Entities (Note 4)	Compensation paid to Supervisors from non-subsidiary affiliates (Note 5)
Supervisor	Huang-Chieh Chu	0	0	0	0	3,694	3,694	0.25%	0.25%	0
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee									

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 compensation, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year's earnings distribution proposal.
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, employee bonuses, and allowances relating to the conduct of business received by Supervisors in their capacity as Director, Supervisor, or managerial officer of a non-subsidiary 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.

Remuneration paid to Supervisors

Scale of remunerations to Supervisors of the Company	Name — Total Remuneration (A+B+C): HTC	Name — Total Remuneration (A+B+C): All Consolidated Entities
Under NT$ 2,000,000	Huang-Chieh Chu, Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	Huang-Chieh Chu, Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee
NT$ 2,000,000 ～ NT$ 4,999,999		
NT$ 5,000,000 ～ NT$ 9,999,999		
NT$ 10,000,000 ～ NT$ 14,999,999		
NT$ 15,000,000 ～ NT$ 29,999,999		
NT$ 30,000,000 ～ NT$ 49,999,999		
NT$ 50,000,000 ～ NT$ 99,999,999		
Over NT$ 100,000,000		
Total	2	2

3. Remuneration paid to General Manager and Assistant General Managers

2014：Unit：NT$ thousands

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-subsidiary affiliates (Note 7)
		HTC	All Consolidated Entities（Note 6）	HTC	All Consolidated Entities（Note 6）	HTC	All Consolidated Entities（Note 6）	HTC Cash	HTC Stock	All Consolidated Entities（Note 6） Cash	All Consolidated Entities（Note 6） Stock	HTC	All Consolidated Entities（Note 6）	HTC	All Consolidated Entities（Note 6）	HTC	All Consolidated Entities（Note 6）	
Head of Future Development	Peter Chou																	
President of Global Sales & Chief Financial Officer	Chialin Chang																	
Chief Operating Officer, Smartphone Business	David Chen																	
General Counsel(Note a)	Marcus Woo																	
President of North America	Jason Mackenzie																	
President of EMEA	Philip Blair																	
President of China & North Asia	Jack Tong																	
President of South Asia(Note b)	Jackson Yang																	
Vice President	Crystal Liu	72,391.82	135,107.53	1,482.47	1,798.07	52,468.75 (Estimated)	83,829.84 (Estimated)	2,208.34 (Estimated)	N/A	2,208.34 (Estimated)	N/A	8.67%	15.03%	9,180,000 shares	10,680,000 shares	1,020,000 shares	1,020,000 shares	N/A
Vice President	Simon Lin																	
Vice President	WH Liu																	
Vice President	Simon Hsieh																	
Vice President	CS Wang																	
Vice President	Georges Boulloy																	
Vice President	Steve Wang																	
Vice President	Edward Wang																	
Associate Vice President	James Chen																	

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 bonus, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year's earnings distribution proposal.
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-subsidiary affiliate.
Note 8: Number of shares represented by restricted employee shares received by General Manager and Assistant General Managers up to the date of printing of this annual report.
Note 9: This chart lists persons who have served as HTC's General Manager and Assistant General Managers on 31 December 2014.

Note a：Marcus Woo was appointed as insider manager on 31 October 2014.
Note b：Jackson Yang was released as insider manager on 6 February 2015.

＊ 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	Marcus Woo, Crystal Liu, Edward Wang, James Chen	Marcus Woo, Crystal Liu, Edward Wang, James Chen
NT$ 5,000,000 ～ NT$ 9, 999,999	Simon Lin, WH Liu, Steve Wang, CS Wang, Simon Hsieh, Georges Boulloy	Simon Lin, WH Liu, Steve Wang, CS Wang, Simon Hsieh, Georges Boulloy
NT$ 10,000,000 ～ NT$ 14, 999,999	Jack Tong	Jack Tong, Jackson Yang
NT$ 15,000,000 ～ NT$ 29, 999,999	David Chen, Chialin Chang	David Chen, Chialin Chang, Jason Mackenzie, Philip Blair
NT$ 30,000,000 ～ NT$ 49, 999,999	Peter Chou	Peter Chou
NT$ 50,000,000 ～ NT$ 99, 999,999		
Over NT$ 100,000,000		
Total	14	17

Note： This chart lists persons who have served as HTC's General Manager and Assistant General Managers on 31 December 2014.

4. Employee profit sharing granted to Management Team

2014：Unit：NT$ thousands

	Title	Name	Stock (Note1)	Cash(Note1)	Total Employee Profit Sharing (Note 1)	Total Employee Profit Sharing Paid to Management Team as a percentage of net income (%) (Note 2)
Manager	Head of Future Development	Peter Chou	N/A	2,208.34 (Estimated)	2,208.34 (Estimated)	0.15%
	President of Global Sales & Chief Financial Officer	Chialin Chang				
	Chief Operating Officer, Smartphone Business	David Chen				
	General Counsel	Marcus Woo				
	President of North America	Jason Mackenzie				
	President of EMEA	Philip Blair				
	President of China & North Asia	Jack Tong				
	Vice President	Crystal Liu				
	Vice President	Simon Lin				
	Vice President	WH Liu				
	Vice President	Simon Hsieh				
	Vice President	CS Wang				
	Vice President	Georges Boulloy				
	Vice President	Steve Wang				
	Vice President	Edward Wang				
	Associate Vice President	James Chen				

Note 1: Planned amount of employee bonuses approved for distribution by the Board of Directors prior to the Shareholders' Meeting for the current year's earnings distribution proposal. The 2014 employee cash bonuses distribution is estimated amount based on the actual amount in 2014. The managers named on the list or projected distributions to managers are those who have served as HTC's Managers before 31 December 2014 and were currently employed as the date of publication of the Annual Report.

Note 2: The 2014 net income NT$ 1,483,046 thousand (Independent Financial Statements).

(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.

	Total remuneration as a percentage of net income					
	2014		2013 (Note)		Increases or decreases % (Note)	
Title	HTC	All Consolidated Entities	HTC	All Consolidated Entities	HTC	All Consolidated Entities
Directors	1.98%	1.98%	N/A	N/A	N/A	N/A
Supervisors	0.25%	0.25%	N/A	N/A	N/A	N/A
President and Vice Presidents	8.67%	15.03%	N/A	N/A	N/A	N/A

Note：Since there's a net loss in fiscal 2013, the percentage in this column is not applicable.

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 additional 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 Seventh Board of Directors conducted 7 (A) meetings in 2014. 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	6	1	85.71%	
Director	HT Cho	6	1	85.71%	
Director	David Bruce Yoffie	4	3	57.14%	
Independent Director	Chen-Kuo Lin	7	0	100%	
Independent Director	Josef Felder	4	3	57.14%	
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. There was no independent director expressing opposition or reservation with respect to any Board of Directors meeting during the preceding fiscal year, and no written record or written statement of related board resolutions.

2. There was no Directors' abstention from discussion due to conflicts of interests in 2014.

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 2013 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 second 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, HTC also convenes online investor conferences on a quarterly basis to allow investors timely access to information on the company's operations and performance. In December 2008, the HTC Investor Relations Website was revised. A special corporate governance page was added along with disclosures of financial information. HTC achieved "A+" rating in information disclosure for the first time in the sixth Information Disclosure and Transparency Ranking organized by the Securities and Future Institute (SFI) and also rated "A+" for three consecutive years. HTC was recognized as one of the top 10 public companies with "A+" rating in the seventh evaluation and rated "A++" in the ninth, tenth and eleventh evaluation for listed/OTC companies.

(2) Supervisor participation in Board of Directors meetings

The Seventh 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.

In 2014, the management team continuously emphasized and provided full support on corporate governance. Headquarters actively reviewed and enhanced the processes of supervision and management of subsidiaries, and developed global policies and procedures. 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 statement. All departments were required to issue individual internal control statements based on their evaluation results and the company would issue the internal control statement based on individual department evaluation 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	Summary	
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 Tranding". 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. Also in consideration is gender equality that contributes to diversity of Board members. Rules given in the principles should be carried out in full.	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 Indepent 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
(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

(Continued)

Item	Implementation Status			Reason for Non-implementation
	YES	NO	Summary	
4. Whether the company has established a channel for communicating with Stakeholders, 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
5. Whether the company has delegated a professional shareholder services agency for handing AGM affairs?	v		The company has delegated China Trust Commercial Bank to be the shareholder service agency for handling AGM affairs.	None
6. 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 Chialin Chang has been appointed spokesperson and a spokesperson email address has been established. An investor conference is convened online each quarter. Recording and presentation are posted on the company website after the conference.	None
7. 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		(1) Employee rights and interests and employee care 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. 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. 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. 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 attillation, 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. 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. 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. 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).	

(Continued)

Item	Implementation Status			Reason for Non-implementation
	YES	NO	Summary	
7. 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) :			(2) Investor relations 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, each quarter investor/press conferences are held, with an average of more than 100 institutional investors from Taiwan and abroad participating. Information is also uploaded to the company website simultaneously. In addition to the regularly scheduled information disclosures above, HTC also actively participates in investment seminars held by local and overseas securities firms and investor/press conferences; it also 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. HTC's investor relations activities in 2014, were as follows: Throughout the year, HTC frequently participated in investor conferences in Taiwan, Hong Kong, Singapore, New York, and London, and periodically visited main investors in the European, American and Asia regions. At the same time, foreign and domestic institutional investors and analysts frequently visit our investor relations department or contact it by phone. Going forward, HTC will continue to advance its work in every aspect of investor relations in order to fulfill the responsibilities of a listed company towa (3) Supplier relations and rights of interested parties 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. (4)Professional development of the Board of Directors, Supervisors, and managerial officers: 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 2013 can be found in Appendixes 1 and 2. (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. HTC's management of potential risk associated with promotion of its global brand is explained below: 1. 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. 2. Receivables risk: Receivables risk is managed effectively by the finance department to ensure receivables quality and lower the risk of bad debt. 3. 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. 4. Global tax risk: To comply with global tax compliance, our company engaged with international tax advisory for periodical review. 5. 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. (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. (7) Liability insurance provided by HTC to the Board of Directors and Supervisors: Article 16 of the amended Articles of Incorporation provides that the company may acquire liability insurance for all the Board of Directors and Supervisors throughout their term, within the scope of the indemnity liability they bear under the law in connection with their business responsibilities. 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 negligence or erroneous or improper conducts by Directors, Supervisors, or key personnel and enhancing the soundness of company management.	

(Continued)

Item	Implementation Status			Reason for Non-implementation
	YES	NO	Summary	
8. If the Company has a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the opinions of board of directors, evaluation results, major deficiencies or suggestions, and improvements are stated as follows:	v		As of 2014, HTC has not yet issued any corporate governance self-assessment report, but has engaged in the first session of the "Corporate Governance evaluation", and achieved "A+" rating. It has become a member of the ROC's Corporate Governance Association (CGA). Regular participation of its Board of Directors, Supervisors, and management-level personnel in the CGA's Board of Directors and Supervisors Association provides opportunities for exchanges with government, business, and academia on topics such as enterprise orientation, strategy development, operations and management, and financial, legal, and corporate governance issues, thereby strengthening HTC's enterprise management and corporate governance.	None

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

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Chairwoman	Cher Wang	2014.11.21	2014.11.21	The Company commissioned Taiwan Securities & Futures Institute (SFI)	Risk Management of Corporate Operation	3	
Supervisor	Huang-Chieh Chu	2014.09.18	2014.09.18	Taiwan Stock Exchange Corporation & Taipei Exchange (TPEx) Gre Tai Securities Market	Meeting of Good Faith Operation and Social Responsibility	3	

Appendix 2: Continuous Education/Training of Management Team

Title	Name	Date of Training		Organization	Training	Hours	Notes
		From	To				
Associate Vice President	James Chen	2014.10.31	2014.11.03	Accounting Research and Development Foundation	Advanced Study 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$: 35,000,000	From：2013.03.15 To：2014.03.15	
2	All Directors, Supervisors and juristic person directors' representatives at investee companies and key personnel appointed by HTC	Fubon Insurance Co., Ltd.	US$: 35,000,000	From：2014.03.15 To：2015.03.15	

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

1. Compensation Committee Members' Information

2015.04.30

Title	Name	Condition: Meet one of the following professional qualification requirements, together with at least five years work experience: 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	Conforms to criteria for independence (Note): 1	2	3	4	5	6	7	8	Number of other public companies concurrently serving as an Compensation Committee member	Notes
Independent Director	Chen-Kuo Lin	V		V	V	V	V	V	V	V	V	V	1	
Other	Yeong-Cheng Wu			V	V	V	V	V	V	V	V	V	0	Appointed on 2014.06.17
Other	Ti-Hsiang Wei			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 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 Second Compensation Committee: from 27 September 2013 to 20 June 2016. The Compensation Committee conducted 4 (A) meetings in 2014.

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate in Person(%) (B / A)(Note)	Notes
Convener	Chen-Kuo Lin	4	0	100%	
Member	Yeong-Cheng Wu	3	0	100%	Appointed on 2014. 06. 17
Member	Ti-Hsiang Wei	4	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: Yes	No	Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
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. Only not yet instituted is a periodical training on CSR.	The company does not have a periodical training on CSR.
(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. Promotion and enhancement of awareness internally and externally: 1. Report to executive management on EICC and CSR implementation status. 2. Audit suppliers to determine adherence to EICC guidelines. 3. Suppliers must sign HTC's Supplier Code of Conduct. 4. 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 CRS-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, with no practice of reporting to the Board on the handling of CSR.
(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 Affair's 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. 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.	None

(Continued)

Item	Yes	No	Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
			Implementation Status	
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 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
3. Protecting the public interest				
(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, with a labor representative 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 new employees entering the factory, they will receive fire prevention training on a monthly basis.	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
(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

(Continued)

Item	Yes	No	Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
			Implementation Status	
3. Protecting the public interes				
(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'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 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: Yes	No	Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
3. Protecting the public interest				
(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	None
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 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.				

(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: Yes	No	Summary	Reason for Non-implementation
1. Adoption of ethical corporate management policies and programs				
(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's 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
2. Enforcement of ethical corporate management				
(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. Also, HTC's internal auditors conduct routine audits of the work operations and internal control system operations of HTC's various divisions, and submit quarterly reports to the board of supervisors and the Board of Directors.	HTC has not established a dedicated (or part-time) unit with responsibility for the enforcement of ethical corporate management.

(Continued)

Item	Implementation Status: Yes	No	Summary	Reason for Non-implementation
2. Enforcement of ethical corporate management				
(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		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. 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. HTC also has established channels for statements of opinions and reports of violations, by which employees may report any questionable conduct discovered.	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		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. 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.	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
3. Status of reporting system for the company				
(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's employee handbook specifically provides that an employee who commits fraud, accepts bribes, misappropriate funds, or violates employmentperiod 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
4. Strengthening information disclosure				
(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: Yes	No	Summary	Reason for Non-implementation
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.

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

Due to a number of factors, including the shift in HTC's principal business operations in recent years to own-brand manufacturing, the growing scale of its operations, and the continued expansion of overseas subsidiaries, 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

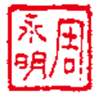
Date: 03/06/2015

The Company states the following with regard to its internal control system for 2014, based on the findings of a self-evaluation:

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 of financial reporting, and compliance with applicable laws and regulations.
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, Executive Yuan (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. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has evaluated the design and operating effectiveness of its internal control system according to the forementioned criteria.
5. Based on the findings of the evaluation mentioned as of 12/31/2014, the Company believes that during the stated time period its internal control system (including its supervision of subsidiaries), encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of financial reporting, and compliance with applicable laws and regulations, 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 03/06/2015, in which all of the 6 attending directors affirmed the content of this Statement.

HTC Corporation. 

Chairwoman: 

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 2014 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.

Item	Date	Material resolutions	Note
Year 2014			
Board of directors meeting	2014.02.10	1. Adopted resolution for registering a change of share status to write-off 1,998,413 shares of the Company's treasury stocks and setting the record date for the reduction of paid-up capital. 2. Adopted resolution for Company's 2014 first quarter summary financial forecast.	
Board of directors meeting	2014.02.28	1. Adopted resolution for the date, time and venue for the Company's 2014 Annual General Shareholders' Meeting, and the submission period and address for shareholders' proposals.	
Board of directors meeting	2014.05.06	1. Adopted resolution for Company's 2014 second quarter summary financial forecast. 2. Adopted resolution for fiscal 2013 Deficit Compensation Proposal. 3. Adopted resolution on the issuance of 5,000,000 New Restricted Employee Shares. 4. Adopted resolution to amend the agenda for convening the 2014 Annual General Shareholders' Meeting of the Company. 5. Adopted resolution on the disposal of Primavera Capital (Cayman) Fund I L.P. by Company's subsidiary, HTC Investment One (BVI). 6. Adopted resolution on the capital injection from Company's subsidiary HTC America Holding Inc. to its subsidiary HTC America Inc. 7. Adopted resolution on the capital injection from Company's subsidiary High Tech Computer Asia Pacific Pte. Ltd. to its subsidiary HTC Communication Co. Ltd.	
Board of directors meeting	2014.06.17	1. Company's appointment of one member to the Compensation Committee.	
Shareholders meeting	2014.06.18	1. Adoption of the Fiscal 2013 Business Report and Financial Statements. 2. Adoption of the Fiscal 2013 Deficit Compensation Proposal. 3. Approved of the proposal to partially amend the Articles of Incorporation. 4. Approved of the proposal to issue 5,000,000 new restricted employee shares.	Please refer to the note for an execution summary of the material resolutions of the shareholders meeting
Board of directors meeting	2014.07.31	1. Adopted resolution for Company's 2014 third quarter summary financial forecast. 2. Adopted resolution for the proposal to issue employee stock option.	
Board of directors meeting	2014.10.31	1. Adopted resolution for Company's 2014 fourth quarter summary financial forecast. 2. Adopted resolution for registering a change of share status to write-off 1,000,000 shares of the Company's treasury stocks and setting the record date for the reduction of paid-up capital.	
Year 2015			
Board of directors meeting	2015.02.06	1. Adopted resolution for Company's 2015 first quarter summary financial forecast.	
Board of directors meeting	2015.03.06	1. Adopted resolution for the date, time and venue for the Company's 2015 Annual General Shareholders' Meeting, and the submission period and address for shareholders' proposals.	
Board of directors meeting	2015.03.20	1. Adopted on appointment of Company's Chief Executive Officer and President.	
Board of directors meeting	2015.04.15	1. Adopted resolution for fiscal 2014 Earnings Distribution Proposal. 2. Approved of the proposal to issue 7,500,000 new restricted employee shares. 3. Adopted resolution to amend the agenda for convening the 2015 Annual General Shareholders' Meeting of the Company.	
Board of directors meeting	2015.04.28	1. Adopted resolution for Company's 2015 second quarter summary financial forecast. 2. Adopted resolution for registering a change of share status to write-off 49,200 shares of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.	

Note: Acting pursuant to resolutions adopted at the 2014 regular shareholders meeting regarding the deficit compensation proposal, HTC completed the compensation in 2014.

(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
President & CEO	Peter Chou	2004.04.30	2015.03.20	position adjustment
President of Engineering and Operations	Fred Liu	2006.04.24	2014.07.31	position adjustment

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-Ya Hsu Casey Lai	Years Ended December 31, 2014	

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			
6	Over NT$ 10,000,000	V		V

(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-Ya Hsu Casey Lai	11,770		162		1.550	1,712	Years Ended December 31, 2014	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 not lower than those for the previous fiscal year by 15 percent or more.

4. The Company Replaces Its Certified Public Accountant Within the Last Two Fiscal Years:

(1) Former Certified Public Accountant:

Replacement Date	2014.10.31 (Date of Board Resolution)		
Replacement Reason	Due to internal adjustment of Deloitte & Touche, CAP Ming-Hsien Yang and CPA Wen-Ya Hsu are replaced by CAP Wen-Ya Hsu and CPA Casey Lai as from the third quarter of 2014.		
Specify whether the appointment is terminated or not accepted by the appointer or CPA (Not applicable)	Persons concerned / Situation	CPA	Appointer
	Voluntary termination of appointment		
	No further acceptance of (continuous) appointment		
Opinions and reasons for audit reports other than reports with unqualified opinions in the last two years	None		
Any disagreement with the issuer	Yes		Accounting principles or practices
			Disclosure of financial reports
			Scope or steps of audit
			Other
	No	V	
	Remarks		
Other disclosures (To be disclosed in accordance with Article 10.5(1).(iv) of the Regulations Governing Information to be Published in Annual Reports of Public Companies)	None		

(2) Successive Certified Public Accountant

Accounting Firm	Deloitte & Touche
Name of CPA	Wen-Ya Hsu, Casey Lai
Appointed Date	2014.10.31 (Date of Board Resolution)
Consultation about accounting treatment or applicable accounting principles for specific transactions and the possible opinion on the financial reports and the results thereof before appointment	None
Written opinions on discrepancy of opinions between the successive CPA and the former CPA	None

(3) The former CPA's written response to the matters referred to in Article 10.5(1) and 10.5(2).(iii) of the "Regulations Governing Information to be Published in Annual Reports of Public Companies": None.

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

		2014		2015.01.01 – 2015.04.04	
Title	Name	Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Chairwoman, CEO & President	Cher Wang	0	0	0	0
Director	HT Cho	(43,000)	0	(6,000)	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	96,000	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
Head of Future Development	Peter Chou	0	0	0	0
President of Global Sales & Chief Financial Officer	Chialin Chang	0	0	0	0
Chief Operating Officer, Smartphone Business	David Chen	120,000	98,000	0	0

(Continued)

Unit：Shares

Title	Name	2014		2015.01.01 – 2015.04.04	
		Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
General Counsel (Note 1)	Marcus Woo	0	0	0	0
President of North America	Jason Mackenzie	0	0	0	0
President of EMEA	Phil Blair	0	0	(2,821)	0
President of China & North Asia	Jack Tong	(18,000)	0	0	0
Vice President	Crystal Liu	0	0	0	0
Vice President	Simon Lin	0	0	0	0
Vice President	WH Liu	0	0	0	0
Vice President	Edward Wang	0	0	0	0
Associate Vice President	James Chen	0	0	0	0
Former Director (Note 2)	Rick Tsai	0	0	N/A	N/A
Former President of South Asia (Note 3)	Jackson Yang	0	0	0	0
Former General Counsel (Note 4)	Grace Lei	0	0	N/A	N/A
Former Chief Marketing Officer (Note 5)	Ben Ho	0	0	N/A	N/A
Former Vice President, Emerging Devices (Note 6)	Michael Woodward	0	0	N/A	N/A
Former President of Engineering and Operations (Note 7)	Fred Liu	(160,000)	0	N/A	N/A
Former Senior Vice President and Head of Design (Note 8)	Scott Croyle	(10,000)	0	N/A	N/A

Note 1：Marcus Woo was appointed as insider manager on October 31, 2014.
Note 2：Jackson Yang was released as insider manager on February 6, 2015.
Note 3：Rick Tsai was released as insider manager on January 24, 2014.
Note 4：Fred Liu was released as insider manager on July 31, 2014.
Note 5：Ben Ho was released as insider manager on October 31, 2014.
Note 6：Grace Lei was released as insider manager on October 31, 2014.
Note 7：Scott Croyle was released as insider manager on May 15, 2014.
Note 8：Michael Woodward was released as insider manager on September 13, 2014.

(2) Stock transfer with related party:

None

(3) Stock Pledged with related party:

None

7. Related parties, as defined in the Statement of Financial Accounting Standards No. 6, among the Company's 10 largest shareholders.

2015.04.04

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)		Note
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Way-Chih Investment Co., LTD. (Representative: Su-Lan Chiang)	43,819,290	5.29%	0	0.00%	0	0.00%	Way-Lien Technology Inc. Hon-Mou Investment Co., Ltd. Kun-Chang Investment Co, Ltd.	Same chairwoman Same chairwoman Same chairwoman	
Way-Lien Technology Inc. (Representative: Su-Lan Chiang)	38,588,231	4.66%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Hon-Mou Investment Co., Ltd. Kun-Chang Investment Co, Ltd	Same chairwoman Same chairwoman Same chairwoman	
Cher Wang	32,272,427	3.90%	22,391,389	2.70%	0	0.00%	Wen-Chi Chen	Spouse	
Hon-Mou Investment Co., Ltd. (Representative: Su-Lan Chiang)	24,385,081	2.94%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Way-Lien Technology Inc. Kun-Chang Investment Co, Ltd	Same chairwoman Same chairwoman Same chairwoman	
Wen-Chi Chen	22,391,389	2.70%	32,272,427	3.90%	0	0.00%	Cher Wang	Spouse	
GMO Emerging Markets Fund	14,781,000	1.79%	0	0.00%	0	0.00%	None	None	
Standard Chartered Bank in custody for Vanguard Emerging Markets Stock Index Fund	13,782,925	1.66%	0	0.00%	0	0.00%	None	None	
Kun-Chang Investment Co, Ltd. (Representative: Su-Lan Chiang)	9,322,824	1.13%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Way-Lien Technology Inc. Hon-Mou Investment Co., Ltd.	Same chairwoman Same chairwoman Same chairwoman	
VIA Technologies, Inc.	6,171,950	0.75%	0	0.00%	0	0.00%	Cher Wang, Wen-Chi Chen	Cher Wang is the chairwoman of VIA Technologies, Inc.; Wen-Chi Chen is the president and director of VIA Technologies, Inc.	
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	5,317,792	0.64%	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

2015.03.31 Unit：thousands Shares；NTD thousands；%

	Investments by HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
Long-term investments (Note)	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
H.T.C. (B.V.I.) Corp.	1,225,202 thousands Shares	100%	0	0%	1,225,202 thousands Shares	100%
Communication Global Certification Inc.	29,057 thousands Shares	100%	0	0%	29,057 thousands Shares	100%
High Tech Computer Asia Pacific Pte. Ltd.	714,534 thousands Shares	100%	0	0%	714,534 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%
Huada Digital Corporation	25,000 thousands Shares	50%	0	0%	25,000 thousands Shares	50%
HTC Investment One (BVI) Corporation	333,733 thousands Shares	100%	0	0%	333,733 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%	1,094,376 thousands Shares	100%	1,094,376 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%	NTD422 thousands	100%

(Continued)

	Investments by HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
Long-term investments(Note)	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
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%
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 Norway AS	0	0%	780 thousands Shares	100%	780 thousands Shares	100%
HTC Rus LLC	0	0%	NTD12,279 thousands	100%	NTD12,279 thousands	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%	358,617 thousands Shares	100%	358,617 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%	1 thousands Shares	100%	1 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 Myanmar Company Limited	0	0%	100 thousands Shares	100%	100 thousands Shares	100%
HTC Vietnam Services One Member Limited Liability Company	0	0%	USD200 thousands	100%	USD200 thousands	100%
High Tech Computer (SuZhou)Co., Ltd.	0	0%	USD20,000 thousands	100%	USD20,000 thousands	100%
HTC Corporation (Shanghai WGQ)	0	0%	USD1,500 thousands	100%	USD1,500 thousands	100%
HTC Electronics (Shanghai) Co., Ltd.	0	0%	USD133,000 thousands	100%	USD133,000 thousands	100%
HTC Communication Co., Ltd	0	0%	USD27,500 thousands	100%	USD27,500 thousands	100%
HTC Communication Technologies (Shanghai Limited)	0	0%	USD4,000 thousands	100%	USD4,000 thousands	100%
HTC Communication Technologies (Beijing Limited)	0	0%	RMB10,500 thousands	100%	RMB10,500 thousands	100%

Note：Investments accounted for using the equity method.

9. Corporate Social Responsibility

As an international brand company, 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

HTC regards employees as a crucial asset. For this reason, we strive to create a working environment that is safe, comfortable and which inspires creativity. Every effort is made to meet and take into account the work requirements of employees. At HTC, we know that maintaining employees' professionalism and passion for contributing to the company's development are critical to the success and sustainable development of the enterprise. HTC continues to help our employees maintain a proper life-work balance, as well as their mental and physical health.

Ensuring the health of our employees has the highest priority, and we strive to provide all employees with a healthy and comfortable working environment. We pay particuiar attention to four areas: health management, health enhancement, occupational health and employee assistance. HTC has also established a response mechanism at management level for all modifiable infectious diseases to ensure the effective use of support resources and safeguard the health of our employees.

In regards to pressure caused by work that often made employees ignore the harm brought to their health, the original health center is complemented by a new staff clinic (an affiliated infirmary at HTC) set up in March 2014 to offer services such as doctor's visit, prescriptions, health consultation, and physical therapy to our colleagues. With their health insurance card and employee ID, the employees are entitled to benefits such as waiver on appointment fees and basic copays. This healthcare service is also available to family of the employees, visitors, and vendors, as a way to offer healthcare to all people in need of it. 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 normal living habits for individual employees in order to foster the ability of self-management on health for those employees and realize a complete healthcare system. In 2014, the clinic served as many as 5,877 visits, and the health center also served as many as 3,460 visits, with the number of participants in the health promotion course reaching as many as 3,095 and total number of people served reaching as many as 12,432.

HTC has a professional-grade fitness center with fitness instructors to develop personalized fitness programs for employees such as aerobics and massage. Courses are offered in static yoga, Pilates, dynamic pop dance, flywheels, TRX core muscle development and so on for the employees to select based on their interests and needs. An app was developed for the employees to select for and register in the course, saving time from waiting in line onsite. In 2014, a total of 11,981 people attended classes at the fitness center.

HTC has partnered with the Eden Social Welfare Foundation to set up a full-time blind masseur area in the gym and provide employees with stress relief services. In 2014, a total of 959 people made use of the massage services. In addition to employees' physical well-being, HTC attaches great importance to the mental well-being of employees. HTC has been working with the Hsinchu Lifeline Association since 2009 to provide employees with psychological counseling and guidance with respect to working career, relationships, family and parenting, gender sentiments, mental illness, and physical and mental stress. All employees are entitled to six free counseling sessions per year at the expense of the company. By the end of 2014, 152 persons had taken advantage of counseling.

HTC employees are provided with a variety of different benefits. Through an electronic platform from our welfare commission, they will be able to learn about and participate in activities from major organizations. Subsidies and incentives are offered for participating in club activities to encourage employees to expand their life experience through exercising and engaging in recreational pursuits in their spare time. All kinds of activities, family days, sports competitions, art and literary competitions for employees to enjoy leisurely and friendly gatherings outside work.

To offer a healthy and satisfying food for employees, we have engaged experienced licensed chefs and dieticians to select suppliers that passed certification for excellent quality of food. These dieticians were to assist dining center in designing healthy and delicious meals that truly meet the nutrition standard, with proportions of nutrients and calories taken into consideration, so that all HTC employees will be able to enjoy high-quality and healthy meals. In our purchases, we strictly forbid use of hazard-contaminated food by insisting on purchase of those with certifications such as CAS, GMP, ISO, and HACCP. The procurement of branded food ingredients is prioritized. An annual procurement contract is signed with each source and inspection certificates are confirmed. We do our best to support local Taiwanese producers.

To look after female employees and promote breast-feeding, HTC has set up 25 breast-feeding rooms and related facilities that offer mothers a comfortable nursing environment. These facilities were used 32,770 times in 2014. For employees under pregnancy, the company also hosted "pregnant exercise" yoga class for them to fully enjoy the thoughtful care offered by the company.

For a quality work environment for its employees, HTC is also taking initiatives in expanding the green space in its plant area by setting up and regularly replacing plant pots in its office space, offering its employees a refreshing work space. Scenery and tree planting can be seen at outdoor areas for a more green and leisure environment to be enjoyed by the employees.

For employee housing, dormitories are equipped with domestic and recreational facilities such as gyms, libraries and meeting halls to meet employees' requirements on space and comfort. We actively cooperate with the government's smoke-free workplace policy and care about employee health as well so there is no smoking within HTC throughout Taiwan.

(2) Safety and Health

HTC has implemented the OHSAS 18001:2007 occupational Health and Safety management system to practice continuous improvement.

To ensure a safe and healthy working environment for our employees, we engaged with accredited lab to test the operating environment at our factories every year. The test results all exceed the relevant regulatory requirements.

To strengthen the health and safety awareness of employees, HTC employees undergo three hours of safety and health training on arrival or during orientation. Employees working in special roles also receive additional safety and health training for their working environment.. Workers handling organic solvents for example receive hazard communication training. The firefighting exercise is carried periodically.

HTC focuses on industrial technology and works in collaboration with different professional contractors to jointly develop innovative products. For trusted long-term contractor partners, we not only learn from each other but also place a strong emphasis on work safety. Proper safety measures ensure that everyone can make the most of their strengths and contribute to mutual success. For this reason, HTC inspects the safety and health management conditions at our contractors every year. A comprehensive labor safety and health management plan is then developed to effectively prevent the occurrence of occupational disasters. It also participated in the "plan for labor safety and health (LSH) take root – LSH family login" piloted by Ministry of Labors. A partnership with a total of 16 nearby factories allowed sharing about experiences in LSH, which effectively improved factors contributing to workplace hazards, safeguarded safety and health of labors, and enhanced competitiveness of the HTC LSH family.

Initiatives taken by HTC on contractor partners' safety and health management include: Conforming to safety & health regulations, risk reduction through hazard identification, hazard regulation and management, safety and health education and contractor management. Full stakeholder involvement is used to mitigate the safety and health risks. New workers are warned about hazards before they enter the site. These include familiarizing workers with the operating environment, manufacturing process safety regulations and use of firefighting equipment.

(3) Supply Chain Partners

Suppliers are a vital factor for the continued success of HTC and also are important partners that support 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 development 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, safety and health, integrity and ethics as well as the operation of related management systems. Apart from on-site audits, the HTC audit team plays the role of consultant as well. Suppliers are provided with the latest information on labor conditions, environment, safety and health in the hopes of elevating them to first-rate sustainable suppliers.

In 2012, Conflict Minerals was introduced to 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 and reduce the use of conflict minerals. HTC requires suppliers to sign "Conflict Minerals Survey Form" and "Conflict-Free Material Assurance Letter" documents. These requirements are explicitly defined in our supplier CSR management process.

According to a report by the 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 a consideration of the applicable laws and regulations in the design and development of our sustainable products. Every stage, from the initial proposal and planning, R&D design, experimental, engineering, preproduction trials, and mass production, all the way to disposal of the product, is given full Life Cycle Assessment (LCA) evaluation. 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 minize harm to the environment while making mobile 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 the three areas: (1) Increased efficiency, (2) Recyclability, and (3) Reducing of hazardous substances with the serious intention of making our products really green and competitive.

1) Enhancement of energy efficiency

By applying the life cycle concept to electronic communications products, our analysis of mobile phone carbon footprint has found that the manufacturing process emit most of the greenhouse gas .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. All power supply devices used by HTC must conform to the following international standards:

- Energy Star (U.S.)
- California Energy Commission (U.S.)
- Energy-related Products (ErP)

2) Recyclability

We start a full evaluation of a product for recyclability at an early stage of the R&D process. To do this 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 and future product recyclability requirements.

3) Reduction of hazardous substances

In 2005, HTC unveiled the world’s first mass-produced RoHS-compliant PDA mobile phone. Today we require that all parts, components, modules, materials, and so on delivered to HTC meet a set of requirements which are even stricter. The restrictions on substances are not only limited to the six items controlled by RoHS but also contain international environmental regulations and customer requirements.

4.1.2 Sustainable Packaging

HTC mobile phone products are packed using materials that make transportation safe and add aesthetics to the products upon delivery. We also consider the impact the packaging materials will have on the environment when they are discarded. The materials we use must be compliant with regulations, environmental friendly, and sustainable. In packaging design, consideration is given to the following:

1. Reduction of the amount of material used;
2. The use of biodegradable raw material;
3. Printing with environmental friendly ink (soy ink);
4. The facilitation of shipment;
5. The education of the consumers about recycling packaging material.

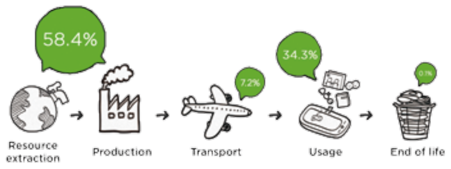
All of the packaging materials for HTC products are compliant with EC directive on packaging (EU 94/62/EC) and the US requirement on packaging (state toxics in packaging laws). All of the printing ink used in HTC product packaging has low volatility or makes use of soy ink that conforms to the American Soybean Association standards. These ensure that the environmental impact of packaging materials is minimized.

We try our best to use sustainable and reusable materials for packaging. If non-recycled paper must be used in packaging, HTC requires the supplier to provide paper certified by the Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC). On the use of packaging, HTC now uses only highly-recyclable packaging materials of these two types:

- Lightweight, folded paper packaging bag design: From 70-80% recycled paper pulp, which is 100% recyclable after being discarded.
- Lightweight integrated packaging design: Formed by 65% sugar cane bagasse and 35% bamboo pulp, it is 100% recyclable and 100% bio-degradable.

4.1.3 Sustainable Product

In response to crisis of global warming, HTC is continuing its quest in search of ways to reduce impacts brought to the environment during the manufacturing, production, and use of the products by consumers. The concept of life-cycle-thinking (LCT) is our way of approaching this, and we start with R&D. The R&D engineers are provided with quantified and fully comprehensive green information for the initiation of life-cycle-investigation (LCI) on the supply chain to establish a database of the key parts and components and their environmental impact. The HTC One was the first smartphone in the world to comply with international standards ISO/TS 14067:2013, PAS 2050:2011, ISO 14040:2006, and ISO 14044:2006 in a carbon footprint and life cycle assessment. After analysis and examinations, the carbon footprint for HTC One was 40.5 kg CO2eq /functional unit. The result showed that the carbon footprint of the smartphones is most significant in the phase of raw material extraction and product manufacturing, as well as consumption by users. HTC is therefore giving our full attention to the planning and implementation of carbon reduction.



Proportion of carbon emissions throughout the HTC One product lifecycle

4.2 Energy and Climate Change

HTC introduced the ISO 50001 energy management system in 2011 to gain a full picture of internal energy use, the relevant regulatory requirements and energy baseline to provide a reference for our energy performance indicators as well as short-, mid- and long-term improvement goals. In 2009, HTC introduced 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.

Total greenhouse gas emissions by HTC were 46,452.2t CO_2e in 2014. Majority of emitted gas were CO_2, with the emission of CH_4, N_2O, and HFC only representing a very small fraction, which mainly came from dispersion of methane, use of natural gas in kitchens and dorms, dispersion of Freon, and the use of fuels for emergency power generators. We will expand the scope of our greenhouse gas emissions inventory and external verification to subsidiaries we control in the future in order to provide comprehensive statistics and monitoring of greenhouse gas emissions. The implementation of the ISO 50001 energy management system and effective energy-saving measures will be used to increase overall energy efficiency, generating better energy revenues and ecological benefits. In addition, no PFC was found in greenhouse gas produced by HTC. In addition, HTC’s GHG emissions contained no PFCs, SF_6, SOX and other waste gasses, and HTC does not use any substances that might endanger the ozonosphere. The cooling and air-conditioning systems in HTC’s new building all use environment friendly coolant R-134a, in an effort to preserve the ozonosphere.

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. 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 usage of natural gas.

With effective use of solar optoelectronics, total saving of natural gas for 2014 accounted for was 126,207 degrees, which translated to a reduction of 237,143 kg of CO2 emission and was equivalent to the amount of carbon absorption by 13,182 trees. 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.

All of the water consumed during our operations comes from tap water. As all factory production lines are dry processes that produce no industrial wastewater, water consumption is all from general office and domestic use by employees.

The Taoyuan factory's water consumption in 2014 was 589,272 tonnes, with 346,062 tonnes of treated domestic sewage. 234,329 tonnes of water were reclaimed, accounting for 67.7% of the treated wastewater. The amount of reclaimed water has far exceeded the 60% target set for 2014. The amount of tap water used was greatly reduced by using reclaimed water instead for watering factory landscaping and in toilets.

4.4 Waste Reduction

HTC's main production process is the assembly of smartphones. The production process generates only tiny amounts of emissions from soldering. No NOx or SOx emissions are generated. 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 thorough 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 the factory, we have also introduced a waste reduction strategy in addition to everyday waste management. Waste classification and reduction education helps reduce waste at the source. Prioritization is given to reuse as well to improve the recycling rate of resources. A total of 2,723.339 tonnes were recycled in 2014.

4.5 Green Factory

In 2012, HTC headquarter building in Taipei received a gold level for a development project based in New Taipei City with excellence from assessment of impact to the environment. In 2013, the building received honors such as the mark for green buildings granted by Ministry of Interior and the LEED (Leadership in Energy & Environmental Design) gold-level certification from US Green Building Council (USGBC). In 2014, the new building in Taoyuan plant also received the LEED gold-level certification from USGBC.

When applying for LEED certifications from USGBC, we implemented requirements from LEED into project planning, design, and construction work, and demanded that vendors of various types of projects comply with and implement those LEED requirements into every part of the construction procedure. After simulation and analysis on energy, the design on energy efficiency contributed to 33.1% of reduction, compared to baseline scenario, in usage of electricity for 2014 in Taipei headquarter building, offering the employees a space that is environment-friendly, energy-efficient, water-sparing, comfortable, and healthy.

Holding on to the ideal for a sustainable environment, HTC will continue to build activity space featuring green designs. Currently, HTC possesses a total of 56,034m2 in area for its outdoor green field. It has planted native Taiwanese trees, such as camphor trees, Taiwanese cypress, and Taiwan golden-rain tree, with a total as many as 810 trees that offer our employees an abundantly green environment to enjoy working in.

(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 core values of integrity, honesty, care, love, positive thinking, and respect for natural resources by untiring efforts to educate.

Our accomplishments:
We embrace the humanitarian spirit of mutual aid and promote character education by helping schools carry out character education for children and youths, working with local governments on organizing community and urban character education, caring for disadvantaged families, and providing disadvantaged children with educational opportunities.

The HTC Foundation plans to build a fourth "Character & English Institute" in Taitung after Hualien, Yunlin and Chiayi. These are a series of courses designed to encourage and assist school leadership teams in Taiwan with the continued promotion and implementation of character and citizen education. Our goal is to help character education take root in every corner of Taiwan. In 2008, we expanded beyond schools into character towns and character hospitals in order to expand the tangible influence of character education into other fields.

The summer "Family Character Camp" hosted by the HTC Foundation and the Hualien Character & English Institute designs courses for parents and students as a family unit. Separate parent and student events are organized with parent activities lasting two days (not including accommodation) and student activities lasting five days (including accommodation). All the costs are met by the HTC Foundation. All Chinese and English-speaking courses at the Character & English Institute are based around character education. Students' character attitudes are cultivated through the teaching approach of "emphasis, requirement, praise and correction". A variety of classes and activities give shape to the core character and are combined with students' own life experiences to teach them the importance and benefits of character so they can practice it in their own everyday life.

We hope that students can all follow the principles of good character and positive thinking in making the right decisions and expressing themselves with the right words, actions and attitudes. In this way, they can become competitive citizens of good character.

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. In 2014, the Taoyuan factory donated 227,500 c.c. of blood while the Hsintien plant donated 124,000 c.c..

5.2.2 Sponsorship of Students from Poor Families

The HTC Foundation for many years has looked after disadvantaged groups by providing scholarships and grants to students from poor families. Apart from providing education plans for continuous learning to help students learn through practice as well as build up their self-confidence and self-worth, HTC also works with students to cultivate the core values of honesty, integrity, love, respect, compassion, positive thinking and respect for natural resources. No effort is spared when it comes to community engagement and social service.

5.2.3 HTC Child Support Club

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 2014, donations from 262 employees and the Employee Welfare Committee raised a total of $2,636,860. The money was used to sponsor 176 children including eight children in Guatemala, Indonesia, the Philippines, Senegal, Sri Lanka, Qirghiz and Paraguay.

5.2.4 HTC Power To Give

To take full advantage of communication technology in solving issues in the society, HTC piloted the "HTC Power To Give" project for public welfare in 2013, utilizing performance of today's four-core or eight-core cellphone processors to connect to the cloud computer using technologies such as 3G/4G and Wi-Fi. This flexible and complementing use of computing power and resources make it possible for participation in world's major science projects.

Many large science project demand optimal computing resources. Computation performed by a lab computer would only generate a small fraction of results even after a few hundred years. However, a major contribution to advancement of science would be possible with utilization of mobile phone resources used at everyone's home in the world today.

By partnering with Dr. David Anderson from University of California, Berkeley, HTC developed a cellphone app that enabled users of smart phones to share idle computing resources while charging their cellphones. This sharing of resources gave room to help answer major topics involving global humanity through studies in search for ways to heal cancer or Alzheimer's disease, supply of clean water, various plans for rehabilitation of environment and ecology, and exploration for signs of life in outer space. Download HTC Power to Give app and complete related settings. When the cellphone is:

- Power is on,
- There is more than 90% power,
- A WiFi network connection exists,
- The screen is not active

HTC Power To Give will automatically start the cellphone to assist with computations for the participated projects mentioned above. Of course, it might be nothing for a small cellphone to compute for a short period of time. However, the computation performed by an accumulation of some cellphones from all over the world would be comparable to that performed by several super-computers. HTC hopes to help solve some major worldwide issues by gathering power from mobile communication devices.

5.2.5 Donation of digital products

Through cooperation with National Tsinghua University, HTC donated old computers via international volunteer group to the Republic of Ghana, giving those second-hand computers new life and offering reuse by nations of remote locations.

5.2.6 Cleaning of beaches and mountains

Besides dedication to its push for concepts on environment-awareness internally, HTC also encourages its employees to get into action by walking out of the office building and participating in environment-friendly activities outside the plant. Staring 2011, our employees have all joined together and participated in activities to clean up beaches and mountains, which raised their awareness for more caring for mountain, forest, and watershed resources; awareness for an optimized ecological environment, as well as that for environment-friendliness.

5.2.7 Donation of second-hand goods for better welfare and environment-friendliness

HTC continues to promote both environment-friendliness and welfare by answering to the call for donation of old blanket and winter clothes to the elderly living in remote areas, as a way of providing care for their well-being. It also raised and donated used books, bicycles, and daily necessities to organizations for the underprivileged.

5.2.8 "Prince of Peace" Christmas Musical

Under support of HTC Foundation, the Christmas troupe from the character shaping organization formed voluntarily by the HTC employees partnered with Rainbow Family Life Education Association to head into mountainous areas in Fuxing Township and bring to those children in remote areas the blessings of harmony and peace offered by the story from the "Prince of Peace" after the year of 2014 that was filled with disasters and unrests. This theatrical play was expected to offer those children a Christmas filled with love.

5.2.9 Gas Pipe Explosion in Kaohsiung City

The August of 2014 witnessed an explosion of underground gas pipe in Qianzhen District of Kaohsiung City that was the most severe in history of Taiwan, where roads and houses were severely damaged, resulting in a major loss for the country. HTC mobilized its employees immediately upon the incidence to gather and raise donations, with a total of 10 million NT Dollars to be used on relief and reconstruction efforts for Kaohsiung City.

5.2.10 Service for elderly by community volunteers

Colleagues voluntarily serving for Dapeng Community in Xindian District of New Taipei City and Baoxing Village activity center were gathered to teach about prevention of stumbling and falling for the elderly in the community.

5.2.11 Project to help remotely-located children fulfill their dreams

Shared wishes for school children in 20 remotely-located schools were adopted and assisted with individually to help fulfill the dreams for those children, helping to fulfill shared wishes for the underprivileged children.

5.2.12 An-De Center for Special Education in Yuli, Hualien County

HTC assisted with contacting of vendors to jointly purchase the 500 broomsticks and mops made annually by students in An-De Center for Special Education in Yuli, Hualien County, so that they can live on their own with better dignity.

5.2.13 Money-raising activities through around-the-island bicycle tours

HTC continues its work with Chinese Christian Relief Association 1919 to host the tenth annual around-the-island money-raising bicycle tours participated in full by many HTC employees as well as the founder Mr. HT Cho.

CHAPTER

5

CAPITAL AND SHARES

CAPITAL AND SHARES

1. Capital and Shares

(1) Capitalization：

2015.04.04 Unit：Share；NT$

		Authorized		Paid-in		Remark		
Month/ Year	Price	Shares	Amount	Shares	Amount	Sources of capital	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
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

(Continued)

2015.04.04 Unit：Share；NT$

		Authorized		Paid-in		Remark		
Month/ Year	Price	Shares	Amount	Shares	Amount	Sources of capital	Capital increase by assets other than cash	Other
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

Note 1： Approval Document No. ：The 23 July 1998 Letter No. Taiwan-Finance-Securities-I-59976 of the Securities and Futures Commission (SFC), Ministry of Finance.
Note 2： Approval Document No. ：The 21 July 2000 Letter No. Taiwan-Finance-Securities-I-59899 of the Securities and Futures Commission (SFC), Ministry of Finance
Note 3： Approval Document No. ：The 13 April 2001 Letter No. Taiwan-Finance-Securities-I-118901 of the Securities and Futures Commission (SFC), Ministry of Finance
Note 4： Approval Document No. ：The 30 April 2002 Letter No. Taiwan-Finance-Securities-I-119837 of the Securities and Futures Commission (SFC), Ministry of Finance
Note 5： Approval Document No. ：The 28 July 2003 Letter No. Taiwan-Finance-Securities-I-0920133959 of the Securities and Futures Commission (SFC), Ministry of Finance
Note 6： Approval Document No. ：The 06 November 2003 Letter No.Taiwan-Finance-Securities-I-0920146220 of the Securities and Futures Commission (SFC), Ministry of Finance
Note 7： Approval Document No. ：The 16 January 2004 Letter No. Taiwan-Finance-Securities-I-0920162653 of the Securities and Futures Commission (SFC), Ministry of Finance
Note 8： Approval Document No. ：The 09 July 2004 Letter No. Finance-Supervisory-Securities-I-0930130457 of the Securities and Futures Bureau of the Financial Supervisory Commission Executive Yuan
Note 9： Approval Document No. ：The 14 January 2003 Letter No. Taiwan-Finance-Securities-I-09100169047 of the Securities and Futures Commission (SFC), Ministry of Finance
Note 10： Approval Document No. ：The 12 July 2005 Letter No. Financial-Supervisory-Securities-I-0940128133 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 11： Approval Document No. ：The 06 July 2006 Letter No. Financial-Supervisory-Securities-I-0950128723 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 12： Approval Document No. ：The 25 January 2007 Letter No. Financial-Supervisory-Securities-III0960004848 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 13： Approval Document No. ：The 12 July 2007 Letter No. Financial-Supervisory-Securities-I-0960036213 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 14： Approval Document No. ：The 25 June 2008 Letter No. Financial-Supervisory-Securities-I-0970031749 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 15： Approval Document No. ：The 16 December 2008 Letter No. Financial-Supervisory-Securities-III0970068202 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 16： Approval Document No. ：The 9 July 2009 Letter No. Financial-Supervisory-Securities-0980034309 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 17： Approval Document No. ：The 8 October 2009 Letter No. Financial-Supervisory-Securities-0980053814 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 18： Approval Document No. ：The 9 March 2010 Letter No. Financial-Supervisory-Securities-0990010834 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 19： Approval Document No. ：The 2 July 2010 Letter No. Financial-Supervisory-Securities-0990034358 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 20： Approval Document No. ：The 30 June 2011 Letter No. Financial-Supervisory-Securities-1000030339 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 21： Approval Document No. ：The 8 November 2011 Letter No. Financial-Supervisory-Securities-1000054193 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 22： Approval Document No. ：The 23 September 2010 Letter No. Financial-Supervisory-Securities-09900541928 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 23： Approval Document No. ：The 11 October 2013 Letter No. Financial-Supervisory-Securities-1020041961 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 24： Approval Document No. ：The 12 January 2011 Letter No. Financial-Supervisory-Securities-1000000751 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 25： Approval Document No. ：The 8 November 2011 Letter No. Financial-Supervisory-Securities-1000054193 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 26： Approval Document No. ：The 19 August 2014 Letter No. Financial-Supervisory-Securities-1030031492 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan
Note 27： Approval Document No. ：The 23 February 2012 Letter No. Financial-Supervisory-Securities-1010006478 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

2015.04.04 Unit：Share

Type of stock	Authorized Capital: Outstanding shares	Unissued Shares	Total	Remark
Common Stock	828,038,125	171,961,875	1,000,000,000	(1) Of our authorized capital, 50,000,000 shares are reserved for the exercise of stock warrants, preferred shares with warrants, or corporate bonds with warrants. (2) The outstanding shares include 49,200 shares of treasury stock withdrawed by HTC without compensation as the vesting conditions of the issuance of restricted employee shares have not been met by the intend employee.

(2) Shareholder structure:

2015.04.04

Structure	Shareholder: Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Treasury stock (Note)	Total
Number of shareholders	1	29	390	769	134,444	1	135,634
Shareholding	14	14,802,471	145,384,510	187,640,634	480,161,296	49,200	828,038,125
Holding percentage	0.00%	1.79%	17.56%	22.66%	57.98%	0.01%	100.00%

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

(3) Distribution of ownership:

2015.04.04 Each share has a par value of NT$10

Shareholder Ownership (Unit : share)	Number of Shareholders	Ownership	Ownership (%)
1 - 999	23,961	3,404,357	0.41%
1,000 - 5,000	96,527	178,816,260	21.59%
5,001 - 10,000	8,776	67,057,761	8.10%
10,001 - 15,000	2,485	31,704,645	3.83%
15,001 - 20,000	1,300	23,838,878	2.88%
20,001 - 30,000	990	25,071,430	3.03%
30,001 - 40,000	428	15,240,739	1.84%
40,001 - 50,000	267	12,445,435	1.50%
50,001 - 100,000	461	32,531,153	3.93%
100,001 - 200,000	219	31,096,343	3.76%
200,001 - 400,000	102	27,777,849	3.35%
400,001 - 600,000	21	10,489,088	1.27%
600,001- 800,000	21	14,725,082	1.78%
800,001 - 1,000,000	12	10,818,694	1.31%
Over 1,000,001	64	343,020,411	41.42%
Total	135,634	828,038,125	100.00%

(4) List of principal shareholders:

2015.04.04 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	5.29%
Way-Lien Technology Inc.	38,588,231	4.66%
Cher Wang	32,272,427	3.90%
Hon-Mou Investment Co., Ltd.	24,385,081	2.94%
Wen-Chi Chen	22,391,389	2.70%
GMO Emerging Markets Fund	14,781,000	1.79%
Standard Chartered Bank in custody for Vanguard Emerging Markets Stock Index Fund	13,782,925	1.66%
Kun Chang Investment Co, Ltd.	9,322,824	1.13%
VIA Technologies, Inc.	6,171,950	0.75%
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	5,317,792	0.64%

(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	2013	2014	2015.01.01-2015.03.31
Market price per share	Highest market price		307.5	180	161
	Lowest market price		122	118	138
	Average market price		208.42	140.01	149.55
Net worth per share (Note)	Before distribution		94.37	97.02	96.24
	After distribution		94.37	96.64 (Note)	95.86
Earnings per share	Weighted average shares (thousand shares)		829,082	824,194	828,028
	Earnings per share		(1.60)	1.80	0.43
	Retroactively adjusted earnings per share		(1.60)	1.80 (Note)	0.43
Dividends per share	Cash dividends		0	0.38 (Note)	
	Stock dividends	Dividends from retained earnings	0	0 (Note)	
		Dividends from capital surplus	-	-	
	Accumulated undistributed dividend		-	-	
Return on investment	Price/Earnings ration		N/A	77.78	
	Price/Dividend ratio		N/A	368.45 (Note)	
	Cash dividend yield		0%	0.03% (Note)	

Note：2015 pending on the approval of the 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. To pay remuneration to the Board of Directors and Supervisors at 0.3% maximum of the balance after withholding the amounts under subparagraphs 1 to 4.
6. To pay bonus to employees at 5% minimum of the balance after withholding the amounts under subparagraphs 1 to 4, or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include employees serving with affiliates who meet specific requirements. Such specific requirements shall be prescribed by the board of directors.
7. For any remainder, the board of directors shall propose allocation ratios based on the dividend policy set forth in paragraph 2 of this Article and propose them 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.)

On April 15, the Board of Directors adopted a resolution to distribute NT$ 314,635,792 in cash dividend. It translates to NT$ 0.38 cash dividends per share (based on the number of outstanding shares as of book closure date for the 2015 Annual Shareholders' Meeting). The Board of Directors may necessary adjustments to the actual distribution ratio on the basis of the number of issued and outstanding shares registered in the Common Stockholders' Roster as at the record date.

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 2015 Annual Shareholders' Meeting; therefore it is not applicable.

(8) Employee Profit Sharing and Compensation for the Board of Directors and Supervisors：

1. Percentage and scope of employee profit sharing and the Board of Director and Supervisor remuneration as stipulated in the Company's Article of Incorporation.

The Company's Articles of Incorporation stipulate that 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. To pay remuneration to the Board of Directors and Supervisors at 0.3% maximum of the balance after withholding the amounts under subparagraphs 1 to 4.
6. To pay bonus to employees at 5% minimum of the balance after withholding the amounts under subparagraphs 1 to 4, or such balance plus the unappropriated retained earnings of previous years.

2. Employee Bonus proposal adopted by the Board

Unit: NT$ thousands

Distribution of 2014 Earnings	Accrued Expenses for Employee Bonus	Resolution Approved by the Board of Directors	
		2015.04.15	
Employee Bonus	88,333.5	Employee Stock Bonus	0
		Employee Cash Bonus	88,333.5
		Total Amount	88,333.5
Directors' and Supervisors' Remuneration	0	0	

Note：There is no difference between the value of employee bonuses and Director/Supervisor remunerations proposed by the Board and expenses accrued in the financial reporting period.

3. Distributions of 2013 employees' bonus and remunerations for the Board of Directors and Supervisors：

Since there was a net loss in fiscal 2013, the Company didn't distribute employees' bonus and remunerations for Directors and Supervisors at the 2014 Annual Shareholders' Meeting.

(9) Share repurchases:

None

2. Issuance of corporate bonds

None

3. Status of Preferred shares

None

4. Global depository receipts

2015.03.31

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
Depositary bank			Citibank, N.A.–New York
Custodian bank			Citibank Taiwan Limited
GDRS outstanding			551,948 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 GDRS 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	2014	High	USD 23.21
		Low	USD 16.18
		Average	USD 18.48
	2015.01.01-2015.03.31	High	USD 20.32
		Low	USD 17.63
		Average	USD 18.79

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 depositary receipts, as itemized below.

- 18 August 2004: dividends issued on common shares underlying the overseas depositary 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 depositary 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 depositary 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 depositary 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 depositary 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 depositary 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 depositary 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 depositary 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 2nd and 3rd 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

2015.04.30 / Unit: share and NT$

Employee Stock Options Granted	2nd Grant	3rd Grant
Approval Date	September 9, 2013	August 19, 2014
Issue (Grant) Date	November 11, 2013	October 31, 2014
Number of Options Granted	15,000,000	19,000,000
Percentage of Shares Exercisable to Outstanding Common Shares	1.76%	2.38%
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.
Source of Option Shares	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%
Shares Exercised	0	0
Value of Shares Exercised	NTD 0	NTD 0
Shares Unexercised	12,215,000 shares	18,015,000 shares
Adjusted Exercise Price Per Share	NTD 149	NTD134.5
Percentage of Shares Unexercised to Outstanding Common Shares (Note)	1.48%	2.18%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited	Dilution to shareholder's equity is limited

Note：The information is calculated based on the issued shares, 828,038,125.

(2) Employee Stock Options Granted to Management Team and to Top 10 Employees

2015.04.30

	Title	Name	Number of Option Acquired	Number of Option Acquired / Number of Shares Issued (Note 1)	Exercised				Unexercised			
					Number of Option	Exercise Price per Share (NTD)	Option amount	Number of Option /Number of Shares Issued (Note 1)	Number of Option	Unexercised Price per Share (NTD) (Note 4)	Option amount	Number of Option /Number of Shares Issued (Note 1)
	Head of Future Development	Peter Chou										
	President of Global Sales & Chief Financial Officer	Chialin Chang										
	Chief Operating Officer, Smartphone Business	David Chen										
	General Counsel	Marcus Woo										
	President of North America	Jason Mackenzie										
	President of EMEA	Phil Blair										
	President of North Asia and China	Jack Tong										
	President of South Asia	Jackson Yang (Note 3)										
Managers	Vice President	Crystal Liu	10,680,000 shares	1.29%	0 shares	N/A	NTD 0	0%	10,680,000 shares	NTD 137.8	NTD 1,471,695,000	1.29%
	Vice President	Simon Lin										
	Vice President	WH Liu										
	Vice President	Simon Hsieh										
	Vice President	CS Wang										
	Vice President	Georges Boulloy										
	Vice President	Steve Wang										
	Vice President	Edward Wang										
	Associate Vice President	James Chen										
		Andre Loenne										
		Andrey Kormiltsev										
		Claude Zellweger										
		Faisal Siddiqui										
Employee (Note 2)		Herman Chen	1,462,000 shares	0.18%	0 shares	N/A	NTD 0	0%	1,462,000 shares	NTD 139.6	NTD 204,063,000	0.18%
		Johnson Chiang										
		Madeline Chen										
		Mark Moons										
		Morris.CY Yang										
		Peter Frolund Moeller										

Note 1：The information is calculated based on the issued shares, 828,038,125.
Note 2：The top 10 employees granted employee stock options are without managerial position.
Note 3：Jackson Yang was released as an insider on February 6, 2015.
Note 4：The unexercised price per shares is calculated by the unexercised option amount to unexercised number of options.

6. New restricted employee shares

(1) Issuance of Restricted Employee Shares and impact to Shareholders' Equity

2015.03.31

Restricted Employee Shares Granted	1st Restricted employee shares
Approval Date	2014.08.19
Issue (Vest) Date	2014.11.02
Number of Restricted Employee Shares Issued	4,600,000 shares
Issued Price per Share	NTD 0
Percentage of Shares Exercisable to Outstanding Common Shares (Note)	0.56%
Vesting Conditions for Exercise of Restricted Employee Shares	1. An employee who remains employed at HTC after 1 year has 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. 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. 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.
Restrictions to the Rights of New Restricted Employee Shares	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: 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. 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.
Custody of Restricted Employee Shares	1. 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. 2. 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.

(Continued)

Procedures for Non-Compliance of the Conditions	1. 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. 2. 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.
Withdrawal of New Restricted Employee Shares	49,200 shares
Unrestricted New Restricted Employee Shares	0 shares
Restricted New Restricted Employee Shares	4,550,800 shares
Percentage of Shares Unrestricted to Outstanding Common Shares (Note)	0.55%
Impact on Shareholders' Equity	Dilution to shareholder's equity is limited

Note：The information is calculated based on the issued shares, 828,038,125.

(2) Restricted Employee Shares to Management Team and to Top 10 Employees

2015.03.31

	Title	Name	Number of Restricted Employee Shares Acquired	Number of Restricted Employee Shares Acquired / Number of Shares Issued (Note 1)	Unrestricted: Number of Shares Unrestricted	Unrestricted: Issued Price per Share	Unrestricted: Issued Amount	Unrestricted: Number of Shares Unrestricted / Number of Shares Issued (Note 1)	Restricted: Number of Shares Restricted	Restricted: Issued Price per Share	Restricted: Issued Amount	Restricted: Number of Shares Restricted / Number of Shares Issued (Note 1)
Managers	Head of Future Development	Peter Chou	1,020,000 shares	0.12%	0 shares	NTD 0	NTD 0	0%	1,020,000 shares	NTD 0	NTD 0	0.12%
	President of Global Sales & Chief Financial Officer	Chialin Chang										
	Chief Operating Officer, Smartphone Business	David Chen										
	President of North Asia and China	Jack Tong										
	Vice President	Crystal Liu										
	Vice President	Simon Lin										
	Vice President	WH Liu										
	Vice President	Simon Hsieh										
	Vice President	CS Wang										
	Vice President	Steve Wang										
	Vice President	Edward Wang										
Employee (Note 2)		Adrian Tung	330,000 shares	0.04%	0 shares	NTD 0	NTD 0	0%	330,000 shares	NTD 0	NTD 0	0.04%
		Allen Cheng										
		Cliff Chou										
		Elmer Peng										
		Frances Wang										
		Frank Sun										
		HC Wang										
		Hsinti Chueh										
		Jerry Chen										
		Jimmy Ho										
		Johnson Chiang										
		Longterng Wu										
		Max Chuang										
		Morris.CY Yang										
		Richard.CT Lin										
		Saigon Tsai										

Note 1：The information is calculated based on the issued shares, 828,038,125.
Note 2：The top 10 employees granted restricted employee shares are without managerial position.

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.

CHAPTER

6

FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

1. Financial Status

Unit：NT$ thousands

Item	2014	2013	Difference Amount	Difference %
Current Assets	110,286,950	111,507,281	(1,220,331)	(1)
Properties	23,435,556	25,561,399	(2,125,843)	(8)
Intangible Assets	7,209,291	8,664,066	(1,454,775)	(17)
Other Assets	22,906,477	26,896,441	(3,989,964)	(15)
Total Assets	163,838,274	172,629,187	(8,790,913)	(5)
Current Liabilities	83,258,739	94,513,990	(11,255,251)	(12)
Non-current Liabilities	246,162	407,537	(161,375)	(40)
Total Liabilities	83,504,901	94,921,527	(11,416,626)	(12)
Capital Stock	8,349,521	8,423,505	(73,984)	(1)
Capital Surplus	15,140,687	15,360,307	(219,620)	(1)
Retained Earnings	59,531,103	66,286,308	(6,755,205)	(10)
Other Equity	1,062,118	557,698	504,420	90
Treasury Stock	(3,750,056)	(12,920,158)	9,170,102	(71)
Non-Controlling Interest	-	-	-	
Total Stockholders' Equity	80,333,373	77,707,660	2,625,713	3

* 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:

Compared to 2013, intangible assets decreased in 2014 as a result of continued amortization and recognized impairment loss form no future economic benefits of goodwill for this term. Other assets for 2014 also saw a decrease as compared to those for 2013, which was mainly caused by disposal of financial assets carried at cost during this term.

Debt:

Liabilities decreased from 2013 to 2014, mainly due to lower revenues and related reductions in purchasing and accounts payables.

Shareholders' Equity:

As treasury stocks for this period were retired, carrying amount of these treasury stocks and capital surplus - premium were debited according to ratios of equity. Differences in capital surplus for the debited treasury stocks were also debited to retained earnings, which resulted in decrease of retained earnings for this year. Other adjustments to shareholders' equity increased mainly due to recognizing exchange differences on translation of overseas subsidiaries. The amount of treasury stocks decreased because of the retirement of these treasury stocks.

2. Operating Results

Unit：NT$ thousands

Item	2014	2013	Difference	%
Revenues	187,911,200	203,402,648	(15,491,448)	(8)
Gross Profit	40,755,095	42,270,753	(1,515,658)	(4)
Operating (Loss) Profit	668,770	(3,970,522)	4,639,292	(117)
Non-operating Income and Expenses	1,314,656	3,774,878	(2,460,222)	(65)
Net Income (Loss) Before Tax	1,983,426	(195,644)	2,179,070	(1,114)
Net Income (Loss) From Continuing Operations	1,483,046	(1,323,785)	2,806,831	(212)
Non-Continuing Operations Loss	-	-	-	-
Net Income (Loss)	1,483,046	(1,323,785)	2,806,831	(212)
Other Comprehensive Income And Loss For The Year, Net of Income Tax	873,654	1,428,310	(554,656)	(39)
Total Comprehensive Income For The Year	2,356,700	104,525	2,252,175	2,155
(Loss) Profit For The Year Attributable To Owners Of The Parent	1,483,046	(1,323,785)	2,806,831	(212)
(Loss) Profit For The Year Attributable To Non-Controlling Interest	-	-	-	-
Total Comprehensive Income Attributable To Owners Of the Parent	2,356,700	104,525	2,252,175	2,155
Total Comprehensive Income Attributable To Non-Controlling Interest	-	-	-	-
Earnings Per Share	1.80	(1.60)	3.40	(213)

* 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

Compared to 2013, revenues for 2014 decreased as a result of changes in product portfolio and over-competition in worldwide market for cellphones. Compared to 2013, operating income for 2014 increased as a result of changes in product portfolio and enforced control that reduced related expenses. Compared to 2013, non-operation income and expenses for 2014 decreased as a result of disposal of residual shares of Associates that did not take place during this term. Compared to 2013, other comprehensive income for 2014 decreased due to recognizing exchange differences on translation of overseas subsidiaries.

3. Cash Flows

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

Item \ Year	2014	2013	%
Cash Flow Ratio（%）	(0.41)	(17.17)	(98)
Cash Flow Adequacy Ratio（%）	105.69	109.71	(4)
Cash Flow Reinvestment Ratio（%）	(0.36)	(19.78)	(98)

Explanation and analysis of change:

2014 cash flow in operating activities was down due to the cash flow ratio increases to -0.41% and the cash flow reinvestment ratio increases to -0.36%. Cash flow adequacy ratio decreases 105.69% due to the decreasing of five-year cash flow in operating activities in 2014 comparing to in 2013.

(2) Cash flow analysis for the coming year

We expect our net cash flows from operating activities and ample cash on-hand can fully support capital expenditures, cash dividends and all other cash needs in 2014.

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

Unit：NT$1,000

Planned Item	Actual or projected sources of capital	Total capital needed (as of FY 2014)	Actual capital utilization	
			2013	2014
Purchas and Installation of Equipment / Facilities	Working capital	600,958	377,836	223,122
Plant/Building Construction	Working capital	2,385,501	1,947,341	438,160

2. Anticipated Benefits

New Plant/Building Construction

The new Taoyuan Headquarters campus and Taipei headquarters building are essential to expanding production and providing HTC employees with an appropriate working environment.

New Equipment / Facilities

Replacement / upgrade of equipment and facilities is critical to enhancing productivity and meeting rising market demand.

HTC's operation is in good condition and the operating cash inflow is stable. The capital expenditures in recent years were mainly from our own operating capital. Therefore there is no great impact on the company's finance.

5. Investment Diversification in Recent Years

HTC's direct investment strategy focuses on the industry segments that enhance HTC's core businesses and long-term strategic developments. Evaluation analysis is based on industry dynamics, market competition, founding team experience, business model and risk analysis. The final goal is to make key strategic investments (via minority or control) in companies and industries that strengthen HTC's product and service offerings and its long-term competitiveness.

In 2014, HTC made two strategic investments in the US. One is East West Artist, an LA based production house and talent management agency; another is MobiSocial Inc., a Stanford-based startup focus on social networking platform. HTC further disposed a small portion of the current investment portfolio in 2014 and will continue evaluating any investment opportunities that matches the company's strategy.

6. 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) Partnerships with Industry Leaders Help HTC Drive Industry Trends

HTC has always developed smartphone products in close cooperation with industry leaders such as Google®, Microsoft®, Qualcomm® as well as the world's leading telecom operators. Examples include HTC's launch of the world's first Windows Mobile smartphone and first Android smartphone. Our strong partnerships deliver greater choice to consumers while continuing to drive industry innovation.

(2) Long-term Cooperative Relationships with Telecom Providers Keep HTC Abreast of Consumer Demand

HTC promotes products directly to mass-market consumers via long-term, unique relationships with the world's largest telecommunications service providers that include the four big mobile operators in the United States, five major operators in Europe and several fast growing carriers in Asia. These relationships not only keep HTC abreast of user demand but also allow HTC to better tailor its products and services to the needs of each carrier partner.

(3) Diverse and growing universe of mobile digital services drives smartphone market penetration

New mobile phone operating systems such as Android and iOS, which permit easy app store downloading of social networking, shopping, travel, game and other software, are attracting even more consumers to the ranks of smartphone users. Smartphone industry is now in the strong growing stage, and telecom operators' aggressively rollout of 4G fastest mobile Internet networks to stimulate growth even further. These developments should all have a positive impact on HTC business growth prospects.

(4) 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.

(5) Comprehensive domestic industry base supports current and future growth needs

Active government and private sector efforts to grow the domestic high tech sector in recent decades have given Taiwan a strong foundation of skilled researchers and technicians. Taiwan is further benefiting from the increase of industry supply and support systems and industry clustering effects. In addition to making it easier for us to recruit and retain personnel, these developments allow us to cooperate with domestic and international suppliers in order to lower purchase costs and respond even faster to industry trends and changes in.

- **Factors Adverse to the Achievement of HTC Growth Goals and Relevant Countermeasures**

Many current and potential competitors are now active in the smartphone market looking to benefit from the rapid growth and demand of smartphone technologies. Competition is expected to continue to intensify as the smartphone user base grows, smartphone functions and features increase, and smartphone model lifecycles shorten. The following outlines HTC measures and response to such challenges.

(1) We work actively to establish HTC's brand value, enhance global brand recognition and preference, and leverage effective brand management activities and product promotions to establish the HTC brand as consumers' "first choice" in smartphones.

(2) We emphasize innovation to maintain a leading competitive edge. Product differentiation and innovations in user experience allow us to develop a wide range of products tailored to meet diverse consumer needs. HTC SenseR is designed with customer at the center to make mobile phones more intuitive and easy to use.

(3) 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.

(4) 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.

(5) As the fastest growing sector of Taiwan's economy, the electronics industry requires a steady stream of human resources. Downsizing in the manufacturing sector has increased the difficulty in hiring entry-level workers. HTC plans to continue to hire foreign workers and work with schools to help increase domestic hiring in the future.

(2) Risk Factors

The following describes identified risks and rela]ted mitigating measures.

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

Impact on HTC profitability:

Item	2013 (NT$1,000 or %)
Net Interest Income	386,172
Net Forex Income	1,097,471
Net Interest Income as percentage of Net Revenue	0.21%
Net Interest Income as percentage of Earnings Before Tax	19.47%
Net Forex Income as percentage of Net Revenue	0.58%
Net Forex Income as percentage of Earnings Before Tax	55.33%

Note: Calculated on HTC consolidated financial numbers

Working capital required to support the expansion of HTC business operations has over recent years been supplied exclusively from internal finances. 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 2014, HTC interest income totaled NT$ 403 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 close of 2014, financial derivatives held by HTC related to exchange risk were valued at USD267 million, EUR6 million, GBP30 million, JPY5,288.5 million, CNH 44 million and CAD31.5million. Fair value of the derivatives changes as a result of forex fluctuations. A decrease of 1% in the quoted exchange rate of any one of the abovementioned currencies against the NT dollar would result in a derivatives holding loss to HTC of approximately NT$68.437 million.

During 2014, the euro appreciated against the NT dollar from 1:41to 1:42, and then depreciated to 1:38. The US dollar appreciated from 1:29.9 against the NT dollar to approximately 1:31.7. Net exchange income earned during 2014 totaled NT$1,097.5 million. Under effective management by the Company, negative effects of exchange rate fluctuations on profits in recent years have been minimal.

Inflation in Taiwan was approximately 1.2% in 2014. Inflation rates in North American and European markets were also relatively negligible. 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 addition to further developing its existing smartphone product line, the Company will continue to research and develop technologies that enhance the user experience, such as wide-angle front camera technologies that allow users to have an ever-more perfect self-shooting experience by enabling the lens to image a broader background. The Duo Camera boasts a depth sensor that enables a wide range of beautiful images and better user experiences. The high efficiency, low distortion headphone amplifiers and built-in speakers make the sound even more stunning. Developing and enhancing all new Smart Sensor Hub provide users new and more intuitive user experiences and provide more health information by improving fitness and sport application through the full integration with HTC BlinkFeed™ . HTC is also exploring dual card, dual mode capabilities that permit dual card users to answer incoming calls whether surfing the Internet or downloading information, while the phone smoothly juggles all the necessary systems. Through HTC's advanced technologies users will continue to enjoy richer, more personalized mobile phone experiences. In addition, through more open developing functions and environments (HTCDev), developers from all over the world can utilize the powerful hardware/software functions of HTC smartphone such as strong computing processor, best camera and sound effects, smart sensor, best HTC Sense™ and HTC BlinkFeed to develop applications that enable users to have more and best user experiences.

In early 2015, HTC announced strategic partnerships with the world-renowned sports company Under Armor Inc. and the legendary game developer Valve Corporation. Through these alliances, HTC underlined its diversification strategy with new connected lifestyle products. HTC joined MWC to announce deepened partnership with the world-renowned sports company Under Armor® and game developer Valve. Through strategic alliance, they announced launch of products such as HTC Grip™ and HTC Vive™ . By integrating with UA Record, a new social platform on sports technology, HTC Grip, the first wearable device from HTC, will offer athletes and sport-lovers complete and detailed data from sport analysis, which will see another full integration of experiences again for smart phones and wearable devices. HTV Vive is a head-worn virtual reality device developed together for the first time by HTC and the world's top-notch game developer Valve Corporation. This device offered an opportunity for HTC and Valve to join together in expanding the market for virtual reality. It is expected that HTC Vive will be able to change how human interact with technology and the world by offering a new way for these interactions.

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 30% of the total worldwide staff count. Its investment on R&D resources represents approximately 7% of its operating income. In 2014, it set up a department for IoT Engineering, and it will continue to devote more R&D resources on various new products and technologies. In the future, virtual reality, wearables and IoT devices will be the focus, in addition to continuous innovation on major smart handheld products and continued refinement on user experiences. This signifies that HTC will offer a future product line that is rich with selections 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

The Financial Supervisory Committee (FSC) of the Executive Yuan has required all listed companies in Taiwan to prepare financial statements in accordance with the International Financial Reporting Standards (IFRSs) starting from January 1, 2013. HTC has established an IFRSs project team and has launched the project plan for its IFRSs adoption. In addition, the progress of such adoption is regularly reported to the Board.

As of December 31, 2012, all potential significant difference between IFRSs and current accounting policy had been identified. Full disclosure of the IFRSs main content and implementation status were included in the footnote of the 2011 annual consolidated financial statements and the 2012 interim and annual consolidated financial statements. Starting from 2013, HTC has prepared financial statements in accordance with IFRSs.

The Taiwan "National Health Insurance Act" was amended on January 26, 2011, to create an obligation to fund the health insurance scheme by paying an extra 2% "supplementary premium" (based on 2% of the total profit sharing and variable bonus) plus the basic premium charge. Such extra 2% "supplementary premium" will be incurred in connection with future payouts of profit sharing and variable bonus and increase the operation cost of the Company. HTC has studied the implications of this new amendment and has taken the necessary managerial precautionary steps with respect to such amendment.

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

Wireless telecommunications is an important growth sector within the IT industry and the smartphone is its flagship product. Responding to rapid mobile internet growth and communication technology migration to 3G/4G, HTC has leveraged outstanding R&D capabilities in partnerships with global telecom leaders to launch numerous "world firsts" that include the world's first Windows Mobile, Android, dual mode GSM/WiMAX, and LTE Android mobile phones. The launch of a diverse range of products through many carriers worldwide has built up HTC's significant position in the global telecommunications industry and created exceptional business opportunities. In the meantime, in order to timely respond to the fast-growing and coming to mature LTE technology and market, HTC continues to invest more developing resources to ensure HTC devices to fully meet the demands of global telecom carriers to ensure HTC's leadership position in 4G market and technology. HTC will 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 high-end, mid-end, and low-end segment 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, in addition to the continuous review and improvement of manufacturing processes to improve production capabilities, quality, and cost savings, the margin of low and middle price tier smartphone is getting lower. The professional assemble subcontractor in both production line deployment and production skills can easily create economy of scale. Therefore HTC considers outsourcing OEM/ODM production of some low-price tier smartphone to create price competitiveness. 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. The influence of carriers can be expected to rise in the new age of 3G/4G wireless standards, which is expected to benefit HTC product penetration. 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:

In recognition of the strategic importance of connected smart devices to HTC's future, we undertook a review of the organization leadership toward the latter part of 2014, with a view to enabling Peter Chou to focus fully on identifying and developing new product opportunities in the connected lifestyle space. Accordingly, the Board of Directors agreed on a strategic change at the top, with Cher Wang assuming the role of CEO in March 2015. Peter Chou has been increasingly focused on product development, a role in which he has demonstrated world-class design and cutting-edge technology expertise. This announcement formalized that progression and lays the foundation for the next stage of HTC's development.

During his time as CEO, Peter Chou oversaw the successful transition of HTC from a handheld device ODM to a global brand. In his new executive role as Head of Future Development, Peter Chou will be instrumental in identifying future growth opportunities for the Company. The Board and management express their profound appreciation for his stewardship over his ten years of leadership, and look forward to his continued contribution in his strategic new role.

12. Lawsuit:

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 evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against 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.

As of the date that the board of directors approved and authorized for issuing consolidated financial statements, there had been no critical hearing nor had a court decision been made, except for the above.

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

None.

14. Risk Management Organization Structure

Responsible/Implementation Unit	Control Item	Implementation Tasks
Legal Department	Contractual and Legal Risk	Manage overall corporate contractual risk
Finance and Accounting Division	Business Strategy and Financial Risks	Responsible for capital allocation and management investment planning, customer credit control, operational analysis, and cost analysis
Internal Audit	Internal Control Risk	Assess comprehensiveness and effectiveness of internal control systems
Global Product Division	Product Trend Risk	Identify future product development trends and customer demands
Design Quality & Engineering Service Division	Product Design and Quality Risks	Ensure design quality of HTC products with regard to hardware, software and product safety
Manufacturing Operation Center	Production Quality Risk	Enhance production quality
Customer Service and Quality Assurance Division	Product Quality Risk	Provide after-sales service and enhance the quality of such

7. Other Important Matters

(1) Certification Details of Employees Whose Jobs are Related to the Release of the Company's Financial Information

Number of Employees

Certification	Finance and Accounting Division	Internal Audit
Certified Public Accountants (CPA)	4	2
Internal Auditor	-	4
US Certified Public Accountants（US CPA）	2	1
China Certified Public Accountants（China CPA）	-	1
Certified Internal Auditor（CIA）	-	4
Chartered Financial Analyst（CFA）	3	-
Financial Risk Manager (FRM)	2	-

CHAPTER

7

AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

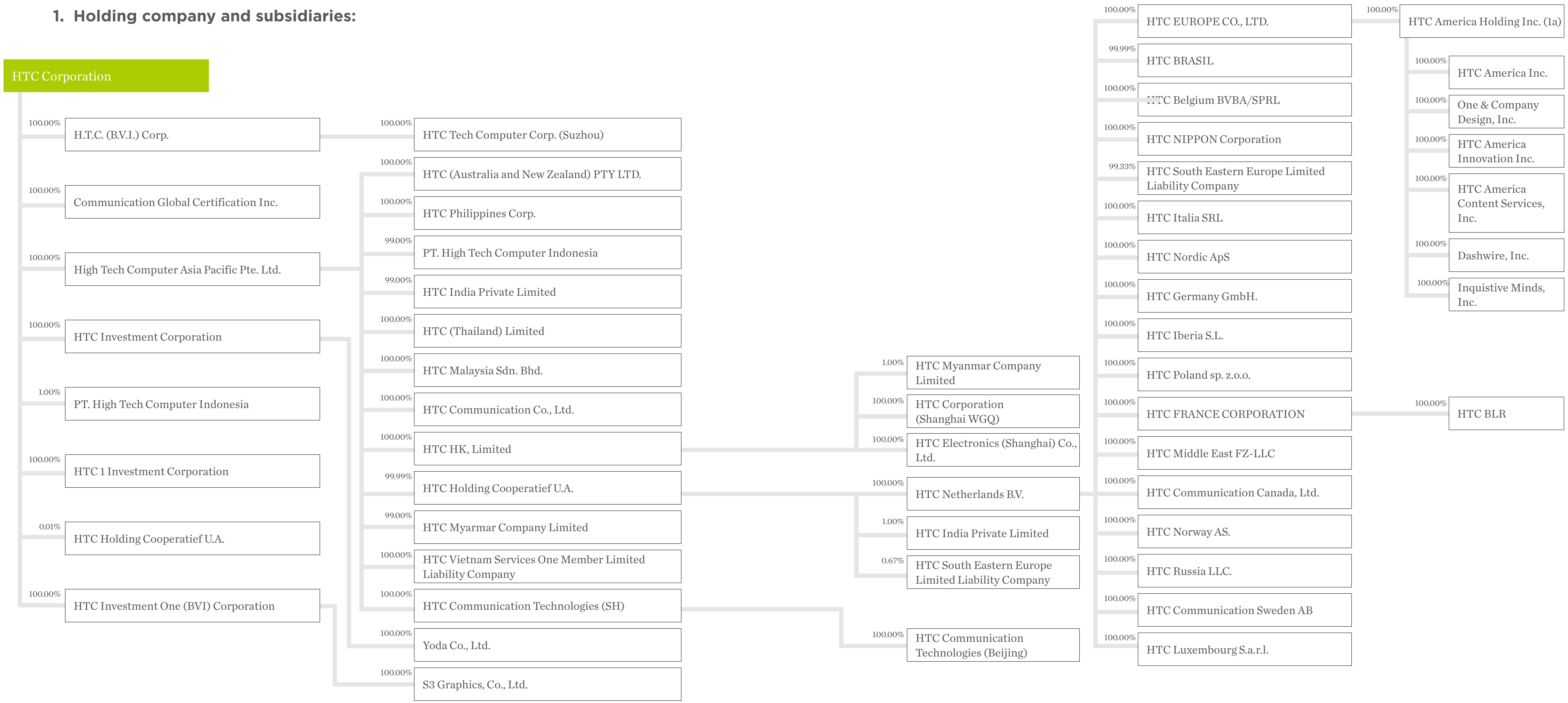
AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

1. Affiliates

(1) HTC affiliated companies chart

2014.12.31

1. Holding company and subsidiaries:



2. Reciprocal affiliation: None

(2) HTC affiliated companies

2014.12.31; 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.	NTD8,349,521	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 3,880,515 (USD 122,520)	International holdings
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	NTD 22,461,933 (SGD 937,838)	Global investing activities, 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 1 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 10,570,158 (USD 333,733)	Holding S3 Graphics Co., Ltd. and general investing activities
HTC Tech Computer Corp. (Suzhou)	2003.01.01	Suzhou Industrial Park, China	NTD 633,450 (USD 20,000)	Manufacturing and sale of smart handheld devices and electronic components
HTC (Australia and New Zealand) PTY LTD.	2007.08.28	Suite 3002, Level 30, 100 Miller Street, North Sydney, Australia	NTD 103,689 (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	NTD 6,335 (PHP 8,588)	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 4,350 (IDR 1,699,313)	Marketing, repair and after-sales services
HTC (Thailand) Limited	2007.11.06	No. 53 Sivayathorn Building, 14th Floor, Room No. 1401, Wittayu Road, Lumpini Sub-district, Patumwan District, Bangkok, Thailand	NTD 24,067 (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, NH8, Gurgaon 12200, Haryana, India	NTD 2,504 (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 2,265 (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	NTD 870,994 (USD 27,500)	Sale of smart handheld devices and electronic components
HTC HK, Limited	2006.08.26	Unit 808, AIA Tower, 183 Electric Road, North Point, Hong Kong	NTD 4,469,267 (HKD 1,094,376)	Global investing activities, marketing, repair and after-sales service

(Continued)

2014.12.31; Amount in thousands

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC Holding Cooperatief U.A.	2009.08.18	Secoya Building, Papendorpseweg 99, 3528 BJ, Utrecht, Netherlands	NTD 6,745,591 (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	NTD 126,690 (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	NTD 3,041 (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	NTD 5,920 (VND 4,000,000)	Marketing, repair and after-sales services
S3 Graphics Co, Ltd.	2001.01.03	P.O. Box 709 George Town Grand Cayman	NTD 11,175,325 (USD 352,840)	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 47,509 (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	NTD 4,209,560 (USD 132,909)	Manufacture and sale of smart handheld devices and electronic components
HTC Communication Technologies (Beijing)	2014.06.04	Floor 4 401 South Zone, No.7, Courtyard 1, Zhongguancun East Road, Haidian District, Beijing	NTD 53,509 (RMB 10,500)	Design, research and development of application software
HTC Netherlands B.V.	2009.11.11	Secoya Building, Papendorpseweg 99, 3528 BJ, Utrecht, Netherlands	NTD 5,538,703 (EUR 143,882)	Global investing activities, marketing, repair and after-sales service
HTC EUROPE CO., LTD.	2003.07.09	Salamanca Wellington Street Slough Berkshire England SL1 1YP	NTD 3,414,342 (GBP 69,270)	Global investing activities, 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.	NTD 23,681 (BRL 1,987)	Marketing, repair and after-sales services
HTC Belgium BVBA/SPRL	2006.10.12	Havenlaan 86/c , box 204 – 1000 Brussels	NTD 731 (EUR 19)	Marketing, repair and after-sales services
HTC NIPPON Corporation	2006.03.22	13F, Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo Japan	NTD 2,648 (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 423,442 (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 173 (EUR 4.5)	Marketing, repair and after-sales services
HTC Nordic ApS.	2010.07.01	A.P. Møllers Allé 9B, 2791 Dragør, Denmark	NTD 414 (EUR 80)	Marketing, repair and after-sales services
HTC Italia SRL	2007.02.19	Viale dell' Esperanto, 71 00144 Roma	NTD 385 (EUR 10)	Marketing, repair and after-sales services
HTC Germany GmbH.	2010.09.06	4th Floor, Zeil 83 60313 Frankfurt am Main	NTD 962 (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 115 (EUR 3)	Marketing, repair and after-sales services
HTC Poland sp. z o.o.	2010.09.01	ul. Post pu 21B 02-676 Warszawa Poland	NTD 2,102 (EUR 234)	Marketing, repair and after-sales services

(Continued)

2014.12.31; Amount in thousands

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC Communication Canada, Ltd.	2011.01.25	2900-550 Burrard Street,Vancouver BC V6C 0A3, Canada	NTD 47,509 (USD 1,500)	Marketing, repair and after-sales services
HTC Norway AS.	2011.08.25	Fjordveien 3, 1363 Høvik, Norway	NTD 3,325 (NOK 780)	Marketing, repair and after-sales services
HTC Russia LLC.	2011.06.28	12th Floor, office 1203, BC Pollars, block C, Derbenevskaya nab. 11, Moscow, 115114, Russian Federation	NTD 6,856 (RUB 12,610)	Sale of smart handheld devices and electronic components
HTC Communication Sweden AB	2011.09.26	C/O Greeting Park Veneu, Engelbrektsgatan 9-11114 32 STOCKHOLM	NTD 4,088 (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 481 (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 30,181 (AED 3,500)	Marketing, repair and after-sales services
HTC America Holding Inc.	2010.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD 7,383,683 (USD 233,126)	International holdings
HTC America Inc.	2003.01.06	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD 4,370,805 (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	NTD 1,140 (USD 36)	Design, research and development of application software
HTC America Innovation Inc.	2010.04.23	13920 SE Eastgate Way, Suite 400 Bellevue, Washington 98005	NTD 95,018 (USD 3,000)	Design, research and development of application software
HTC America Content Services, Inc.	2011.03.28	13920 SE Eastgate Way, Suite 400, Bellevue, WA 98005	NTD 161,530 (USD 5,100)	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 0.03 (USD 0.001)	Development and Sale of Digital Education Platform
HTC BLR	2006.11.09	6 Skryganova street Minsk 220073 office 702A	NTD94 (BYR 42,820)	Design, research and development of application software

Note: Paid-in capital is translated at the exchange rates prevailing on 2014.12.31.

(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 handheld 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:

1. The primary business of H.T.C. (B.V.I.) Corp., HTC America Holding Inc., and HTC Holding Cooperatief U.A. is international holdings.
2. Communication Global Certification Inc. engages in the import of controlled telecommunications radio frequency devices and information software services.
3. The primary business of HTC Investment Corporation and HTC I Investment Corporation is general investing activities.
4. High Tech Computer Corp. (Suzhou) and HTC Electronics (Shanghai) Co., Ltd. engage in the manufacture and sale of smart handheld devices.
5. HTC Corporation (Shanghai WGQ) engages in detect, after-sales services, and technical Advisory of smart handheld devices.
6. HTC Communication Co., Ltd. engages in the sale of smart handheld devices.
7. HTC BLR, HTC America Innovation Inc., One & Company Design Inc., HTC Communication Technologies (Beijing) and HTC Communication Technologies (SH) engage in design, research and development of application software.
8. HTC America Inc., HTC NIPPON Corporation, and HTC Russia LLC. engage in the sale of smart handheld devices and electronic components.
9. 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.
10. HTC America Content Services, Inc. and HTC Luxembourg S.a.r.l. engage in online and download media services.
11. Dashwire, Inc. engages in design and management of cloud synchronization technology.
12. Inquisitive Minds, Inc. is mainly engaged in development and sale of digital education platform.
13. HTC Investment One (BVI) Corporation is mainly engaged in acquisitions and general investment for S3 Graphics Co., Ltd.
14. The primary business of S3 Graphics Co, Ltd. is design, research and development of graphics technology.
15. Yoda Co., Ltd. is mainly engaged in restaurant and parking lot business as well as building cleaning services.
16. The remaining companies engage in marketing, repair and after-sales services.

(5) Information of Directors, Supervisors, and Presidents of HTC Affiliated Companies

2014.12.31 Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
Investor：				
HTC Corporation	Chairwoman	Cher Wang	32,272,427 shares	3.87%
	Director	Wen-Chi Chen	22,391,389 shares	2.68%
	Director	HT Cho	102,530 shares	0.01%
	Director	David Bruce Yoffie	-	-
	Independent Director	Chen-Kuo Lin	-	-
	Independent Director	Josef Felder	229,985 shares	0.03%
	Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	43,819,290 shares	5.25%
	Supervisor	Huang-Chieh Chu	-	-
Investee：				
H.T.C. (B.V.I.) Corp.	Chairwoman	HTC Corporation Representative: Cher Wang	1,225,201,760 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: James Chen	29,056,807 shares	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	Director	HTC Corporation Representative: Peter Chou, Fred Liu, Lim Tiong Beng	714,534,059 shares	100.00%
HTC Investment Corporation	Chairperson	HTC Corporation Representative: Peter Chou	30,000,000 shares	100.00%
	Director	HTC Corporation Representative: Chialin Chang, Fred Liu	30,000,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Edward Wang	30,000,000 shares	100.00%
HTC 1 Investment Corporation	Chairperson	HTC Corporation Representative: Peter Chou	29,500,000 shares	100.00%
	Director	HTC Corporation Representative: Chialin Chang, Fred Liu	29,500,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Edward Wang	29,500,000 shares	100.00%
HTC Investment One (BVI) Corporation	Director	HTC Corporation Representative: Cher Wang	333,733,246 shares	100.00%
HTC Tech Computer Corp. (Suzhou)	Chairperson	H.T.C. (B.V.I.) Corp. Representative: Fred Liu	USD 20,000 thousands	100.00%
HTC (Australia and New Zealand) PTY LTD	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang, James Chen, Elson Pow	400,000 shares	100.00%
HTC Philippines Corporation	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Chou, Fred 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: Jackson Yang, Edward Wang	10,000,000 shares	100.00%

(Continued)

2014.12.31 Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC India Private Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang, James Chen, Faisal Siddiqui	495,000 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: Edward Wang, James Chen, Faisal Siddiqui	5,000 shares	1.00%
HTC Malaysia Sdn. Bhd.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang, Jackson Yang, 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: Fred Liu	USD 27,500 thousands	100.00%
HTC HK, Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Fred Liu, Abraxas Limited	1,094,375,526 shares	100.00%
HTC Holding Cooperatief U.A.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang, J. J. van Ginkel	EUR 175,234 thousands	99.99%
	Director	HTC Corporation Representative: Edward Wang, J. J. van Ginkel	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%
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：Jack Tong	USD 200 thousands	100.00%
S3 Graphics Co, Ltd.	Director	HTC Investment One (BVI) Corporation Representative: Peter Chou, Fred Liu, Grace Lei	386,338,516 shares	100.00%
Yoda Co., Ltd.	Chairperson	HTC Investment Corporation Representative: James Chen	20,000 thousands	100.00%
HTC Corporation (Shanghai WGQ)	Executive Director	HTC HK, Limited Representative: Fred Liu	USD 1,500 thousands	100.00%
HTC Electronics (Shanghai) Co., Ltd.	Chairperson	HTC HK, Limited Representative: CS Wang	USD 132,909 thousands	100.00%
HTC Communication Technology (Beijing) Co., Ltd	Chairperson	HTC Communication Technologies (Shanghai Limited) Representative: Peter Chou	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 Chou, Fred Liu	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: Fred Liu, Edward Wang, TMF Management	18,549 shares	100.00%
HTC NIPPON Corporation	Director	HTC Netherlands B.V. Representative: Fred Liu, Edward Wang, Ryoji Murai	1,000 shares	100.00%
HTC France Corporation	President	HTC Netherlands B.V. Representative: Philip Alan Blair	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: Philip Alan Blair, Edward Wang	80,000 shares	100.00%
HTC Italia SRL	Director	HTC Netherlands B.V. Representative: Philip Alan Blair	EUR 10 thousands	100.00%
HTC Germany GmbH	Director	HTC Netherlands B.V. Representative: Philip Alan Blair	25,000 shares	100.00%
HTC Iberia S.L.U.	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	3,006 shares	100.00%

(Continued)

2014.12.31 Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC Poland sp z o.o.	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	4,687 shares	100.00%
HTC Communication Canada, Ltd.	Director	HTC Netherlands B.V. Representative: Jason Makenzie, Edward Wang	1,500,000 shares	100.00%
HTC Norway AS.	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	780,000 shares	100.00%
HTC Russia LLC.	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	RUB 12,610 thousands	100.00%
HTC Communication Sweden AB	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	1,000,000 shares	100.00%
HTC Luxembourg S.a.r.l.	Director	HTC Netherlands B.V. Representative: Edward Wang,	12,500 shares	100.00%
HTC Middle East FZ-LLC	Director	HTC Netherlands B.V. Representative: Philip Alan Blair, Edward Wang	3,500 shares	100.00%
HTC America Holding, Inc.	Director	HTC EUROPE CO. LTD Representative: Edward Wang	358,617,151 shares	100.00%
HTC America, Inc.	Director	HTC America Holding, Inc. Representative: Peter Chou, Fred Liu	1,000 shares	100.00%
One & Company Design, Inc.	Director	HTC America Holding, Inc. Representative: Edward Wang	60,000 shares	100.00%
HTC America Innovation, Inc.	Director	HTC America Holding, Inc. Representative: James Chen	1,000 shares	100.00%
HTC America Content Services, Inc.	Director	HTC America Holding, Inc. Representative: Edward Wang	1,000 shares	100.00%
Dashwire, Inc.	Director	HTC America Holding, Inc. Representative: Edward Wang	100 shares	100.00%
Inquisitive Minds, Inc.	Director	HTC America Holding, Inc. Representative: Edward Wang	100 shares	100.00%
HTC BLR	Director	ABAXIA SAS Representative: Ongan Mordeniz	BYR 42,820thousands	100.00%

(6) Operational Highlights of HTC Affiliated Companies

2014; 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	$8,349,521	$163,012,214	$82,678,841	$80,333,373	$174,793,564	$481,485	$1,483,046	$1.80
Investee：								
H.T.C. (B.V.I.) Corp.	3,880,515	2,916,858	1,212	2,915,646	18,631	18,566	(222,233)	(0.18)
Communication Global Certification Inc.	290,568	504,873	70,537	434,336	252,891	50,765	42,822	1.47
High Tech Computer Asia Pacific Pte. Ltd.	22,461,933	32,471,475	55,109	32,416,366	1,888,304	1,492,124	1,847,620	2.59
HTC Investment Corporation	300,000	284,884	110	284,774	1,483	1,355	(16,292)	(0.54)
HTC 1 Investment Corporation	295,000	261,059	110	260,949	-	(125)	(35,011)	(1.19)
HTC Investment One (BVI) Corporation	10,570,158	5,964,783	-	5,964,783	60,065	(1,086,569)	(1,020,582)	(3.06)
HTC Tech Computer Corp. (Suzhou)	633,450	785,545	1,473	784,072	126	(3,988)	18,733	-
HTC (Australia and New Zealand) PTY LTD.	103,689	372,088	154,690	217,398	408,096	19,590	15,401	38.50
HTC Philippines Corporation	6,335	6,744	-	6,744	-	-	-	-
PT. High Tech Computer Indonesia	4,350	34,925	7,418	27,507	-	(2,266)	(3,391)	(18.04)
HTC (Thailand) Limited	24,067	64,223	17,443	46,780	79,464	3,819	2,968	0.30
HTC India Private Limited	2,504	280,226	225,930	54,296	714,669	33,990	6,571	13.14
HTC Innovation Limited	-	-	-	-	-	(1,791)	(1,797)	-
HTC Malaysia Sdn. Bhd.	2,265	34,813	13,159	21,654	44,837	2,134	2,806	112.24
HTC Communication Co., Ltd.	870,994	12,557,240	10,709,287	1,847,953	24,792,434	310,201	344,485	-
HTC HK, Limited	4,469,267	8,656,724	79,680	8,577,044	540,407	307,087	341,627	0.31
HTC Holding Cooperatief U.A.	6,745,591	12,141,724	2,985	12,138,739	726,479	725,143	701,604	-
HTC Communication Technologies (SH)	126,690	823,678	529,588	294,090	896,662	58,660	62,803	-
HTC Myarmar Company Limited	3,041	3,041	-	3,041	-	-	-	-
HTC Vietnam Services One Member Limited Liability Company	5,920	7,034	1,885	5,149	-	(1,002)	(596)	-
S3 Graphics Co, Ltd.	11,175,325	5,902,275	-	5,902,275	60,065	60,065	59,673	0.15
Yoda Co., Ltd.	20,000	44,096	22,447	21,649	94,116	1,854	1,509	-
HTC Corporation (Shanghai WGQ)	47,509	159,535	56,981	102,554	256,571	12,218	13,584	-
HTC Electronics (Shanghai) Co., Ltd.	4,209,560	10,509,690	2,401,263	8,108,427	12,319,542	285,288	279,187	-
HTC Communication Technologies (Beijing)	53,509	57,432	-	57,432	76,729	5,020	4,404	-

(Continued)

2014; 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)
HTC Netherlands B.V.	$5,538,703	$12,231,119	$89,497	$12,141,622	$595,859	$519,884	$702,735	$4.88
HTC EUROPE CO., LTD.	3,414,342	9,556,248	881,509	8,674,739	2,936,940	128,392	660,394	9.53
HTC BRASIL	23,681	30,289	6,516	23,773	21,019	1,053	889	0.45
HTC Belgium BVBA/SPRL	731	140,847	17,134	123,713	80,673	3,751	3,796	204.64
HTC NIPPON Corporation	2,648	1,506,362	1,409,388	96,974	3,598,258	39,599	27,679	27,679.00
HTC FRANCE CORPORATION	423,442	51,750	32,421	19,329	128,583	2,957	5,984	0.54
HTC South Eastern Europe Limited Liability Company	173	6,641	1,136	5,505	-	(217)	(207)	(1,380.00)
HTC Nordic ApS.	414	70,052	31,261	38,791	82,726	2,610	1,807	22.59
HTC Italia SRL	385	25,559	49,370	(23,811)	53,932	777	(26,957)	-
HTC Germany GmbH.	962	99,553	24,109	75,444	210,587	11,027	7,005	280.20
HTC Iberia S.L.	115	37,400	12,282	25,118	52,025	1,418	2,216	738.67
HTC Poland sp. z o.o.	2,102	6,316	3,490	2,826	34,836	1,591	420	89.36
HTC Communication Canada, Ltd.	47,509	97,234	27,548	69,686	188,303	8,967	5,813	3.88
HTC Norway AS.	3,325	5,234	234	5,000	1,113	44	372	0.48
HTC Russia LLC.	6,856	5,058	-	5,058	345,338	15,055	307	-
HTC Communication Sweden AB	4,088	9,174	3,376	5,798	10,013	477	665	0.67
HTC Luxembourg S.a.r.l.	481	1,559,644	22,419	1,537,225	-	(212,361)	(196,083)	(15,686.64)
HTC Middle East FZ-LLC	30,181	96,599	57,879	38,720	160,331	3,026	2,479	708.29
HTC America Holding Inc.	7,383,683	7,542,515	40,445	7,502,070	270,124	221,591	253,025	0.71
ABAXIA SAS	-	-	-	-	21,923	393	8,345	-
HTC America Inc.	4,370,805	15,336,685	9,515,726	5,820,959	45,475,259	453,699	283,459	283,459.00
One & Company Design, Inc.	1,140	81,676	23,290	58,386	-	(2,908)	(2,927)	(48.78)
HTC America Innovation Inc.	95,018	574,582	186,256	388,326	1,230,751	58,783	73,399	73,399.00
HTC America Content Services, Inc.	161,530	42,455	326,325	(283,870)	270	(96,078)	(94,384)	(94,384.00)
Dashwire, Inc.	0.003	5,218	59,816	(54,598)	788	(4,209)	(4,253)	(42,530.00)
Inquisitive Minds, Inc.	0.03	63,179	31,407	31,772	81,854	30,411	16,295	162,950.00
HTC BLR	94	1,497	2,830	(1,333)	4,930	(928)	(932)	-

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 2014 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 2014 as of the Date of This Annual Report: None.

4. Any Events in 2014 as of the Date of This Annual Report: That Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

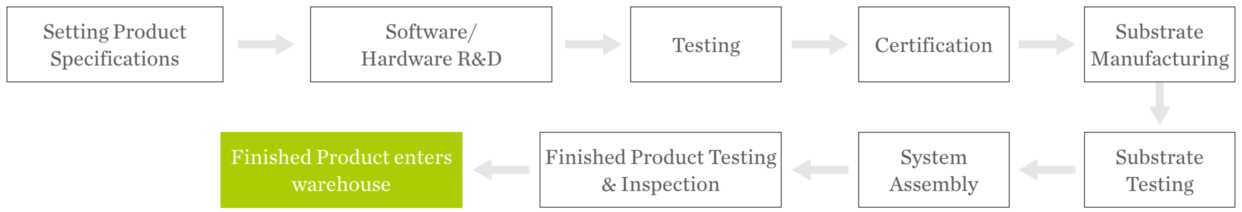
5. Other Necessary Supplement:

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

HTC's primary products are converged devices designed on Android and Windows Phone operating systems (OS), with wearable, virtual reality and other intelligent devices being actively developed. 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 from 3G to 4G (LTE Long Term Evolution) and the evolution toward wireless broadband and the increase of wireless bandwidth in order to satisfy customers' various needs through faster speed.

The workflow for handheld devices, from R&D through production, is as follows:



(2) Environmental Protection Expenditures

HTC primarily manufactures smartphones. 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, 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 rules and regulations and reduce accidents and abnormalities;

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 technical and administrative measures and ISO50001 energy management standard to maximize clean production benefits.

d. Major planned environmental expenditures over the next 2 years include:

Unit：NT$ thousands

Fiscal Year / Item	Anticipated Equipment Purchases / Expenditures	Anticipated Benefits	Expenditures (estimated)
2015	1. Energy efficient lighting system 2. Pantry, washroom, and bathroom efficient water saving utilities 3. Inverters for elevators & air compressors 4. Water / power conservation promotion activities 5. Energy efficient air conditioning equipment 6. System to supply recycled wastewater 7. Rainwater collection tank construction to recycle rainwater	1. Reduce energy consumption by using LED lighting system 2. Pantry, washroom, and bathroom efficient water saving utilities 3. Reduce energy consumption through the inverters for elevators & air compressors 4. Conserve water resources 5. Energy efficient air conditioning equipment 6. Conserve water resources 7. Conserve water resources by recycling rainwater for toilet flush water	80,743
2016	1. Energy efficient lighting system 2. Water conservation facilities 3. Energy efficient air conditioning equipment 4. Inverters for elevators & air compressors 5. Waste water reprocess to provide for campus watering system and ecological pond 6. Water / power conservation promotion activities 7. Garbage reduction and recycling promotion activities 8. Campus greening efforts	1. Reduce energy consumption by using LED lighting system 2. Pantry, washroom, and bathroom efficient water saving utilities 3. Energy efficient air conditioning equipment 4. Reduce energy consumption through the inverters for elevators & air compressors 5. Promote general waste reduction & recycling 6. Conserve water resources 7. Reduce waste volumes by promoting garbage reduction and recycling 8. Reduce energy consumption through campus greenification	105,450
2017	1. Energy efficient lighting system 2. Energy efficient air conditioning equipment 3. Inverters for air compressors 4. Waste water reprocess to provide for campus watering system 5. Water / power conservation promotion activities 6. Garbage reduction and recycling promotion activities 7. Campus greening efforts	1. Reduce energy consumption by using LED lighting system 2. Energy efficient air conditioning equipment 3. Reduce energy consumption through the inverters for air compressors 4. Promote general waste reduction & recycling 5. Conserve water resources 6. Reduce waste volumes by promoting garbage reduction and recycling 7. Reduce energy consumption through campus greenification	90,655

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. Track greenhouse gas emission to monitor type and amount of energy resources currently being used. Use data to draft action plan for energy conservation;
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 Health and Safety (H&S):
In accordance with contents of the plan for management of occupational health and safety (H&S), the company will comply with H&S 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 H&S, and promoting vendor management. All of these tasks will be implemented into "H&S organizations", "H&S management", "education and training on H&S", "standard operating procedures and analysis for work safety", "H&S inspections", "emergency response", and "H&S activities" in order to achieve engagement by all parties for a reduced risk on H&S. HTC is certified under OHSAS18001. New employees receive health and safety education training related to HTC's work environment and production processes. HTC also holds regular fire safety drills to ensure all employees are familiar with fire prevention and suppression facilities and equipment.

Employees are the most valuable assets for HTC. To safeguard health of our employees, the task of our health center works toward "health management", "promotion of health", "occupational health", and "employee assistant plan" for our employees, in a hope that this employee clinic (an affiliated infirmary at HTC) would offer services such as ensured doctor visits, prescriptions, health consultation, and physical therapy for our colleagues. 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 normal living habits for individual employees in order to foster the ability of self-management on health for those employees and realize a complete healthcare system.

4. Green Product Research and Development

In addition to complying with related regulations, HTC will extend its thoughts on development of sustainable products to design of its products. All phases starting from proposal for the products, planning, R&D design, lab trials, engineering trials, production trials, mass production to discarding will undergo complete assessment on life cycle. A detailed analysis for processes behind the products will help our R&D team understand about complex factors from influence by the environment.

We expect the mobile devices designed and manufactured by us would meet expectations from consumers and truly reduce the influence left on the environment. Thus, 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 environment.

In response to crisis of global warming, HTC is continuing its quest in search of ways to reduce impacts brought to the environment during the manufacturing, production, and use of the products by consumers. We based our thoughts on the concept of life-cycle thinking (LCT) and conducted check on the life cycle of our supply chains to establish a database on environmental load for the components and perform product verification. HTC One passed verification from a third-party agency on carbon footprint by taking the lead in completing international standards such as ISO/TS 14067:2013, PAS 2050:2011, ISO 14040:2006, and ISO 14044:2006 on carbon footprint and life cycle assessment for smart phones. After analysis and examinations, the footprint for HTC One was 40.5 kg CO_2eq / functional unit. The result showed that the most noticeable footprint was caused during the phases of acquisition, manufacturing, and utilization for raw materials. As a result, HTC will strive to devise plans and actions for reduction of the footprint during these two phases.

(3) 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 2014, total training related expenditure wereNT$12 million and training hours were 204,541 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, 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 incentive and retention program. 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.

Employee Recognition:

There is Employee Recognition Program in place to encourage organizations to quarterly recognize outstanding employees and teams in public and reward in cash. Additionally, overseas sites hold employee recognition activity to recognize employees on annual base.

Long Service Awards:

Awards are presented at a company-wide ceremony that recognizes employees who have provided with 5-year, 10-year and 15-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 his / her individual 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.

CHAPTER

8

FINANCIAL INFORMATION

FINANCIAL INFORMATION

1. Abbreviated Balance Sheets for the Past Five Fiscal Years

(1) Abbreviated Balance Sheets - IFRS

Unit：NT$ thousands

Item		Year 2014	2013	2012	2011	2010
Current Assets		85,050,267	86,792,110	120,322,646	178,751,062	Abbreviated balance sheet was based on ROC GAAP
Properties		18,660,108	19,773,608	19,726,836	15,318,600	
Intangible Assets		1,222,721	1,650,891	1,717,150	2,241,541	
Other Assets		58,079,118	59,337,585	55,213,207	50,810,264	
Total Assets		163,012,214	167,554,194	196,979,839	247,121,467	
Current Liabilities	Before Appropriation	82,556,301	89,731,340	116,556,611	145,631,489	
	After Appropriation	*	89,731,340	118,219,066	178,880,574	
Non-current Liabilities		122,540	115,194	150,534	188,097	
Total Liabilities	Before Appropriation	82,678,841	89,846,534	116,707,145	145,819,586	
	After Appropriation	*	89,846,534	118,369,600	179,068,671	
Capital Stock		8,349,521	8,423,505	8,520,521	8,520,521	
Capital Surplus		15,140,687	15,360,307	16,601,557	16,601,557	
Retained Earnings	Before Appropriation	59,531,103	66,286,308	70,102,031	86,542,008	
	After Appropriation	*	66,286,308	68,439,576	53,292,923	
Other Equity		1,062,118	557,698	(885,925)	2,939	
Treasury Stock		(3,750,056)	(12,920,158)	(14,065,490)	(10,365,144)	
Total Stockholders' Equity	Before Appropriation	80,333,373	77,707,660	80,272,694	101,301,881	
	After Appropriation	*	77,707,660	78,610,239	68,052,796	

*：Subject to change after shareholders' meeting resolution

(2) Abbreviated Balance Sheets - ROC GAAP

Unit：NT$ thousands

Item		Year 2014	2013	2012	2011	2010
Current Assets		Abbreviated balance sheet was based on IFRS		127,271,142	180,204,464	156,875,067
Long-term Investments				42,652,154	37,777,785	10,708,420
Properties				19,935,586	15,422,345	10,941,230
Intangible Assets				1,625,340	2,120,948	208,581
Other Assets				12,702,516	12,585,381	5,317,155
Total Assets				199,186,738	284,110,923	184,050,453
Current Liabilities	Before Appropriation			118,817,523	146,683,699	109,335,331
	After Appropriation			120,479,978	179,932,784	139,226,420
Long-term Liabilities				-	-	-
Other Liabilities				-	628	628
Total Liabilities	Before Appropriation			118,817,523	146,684,327	109,335,959
	After Appropriation			120,479,978	179,933,412	139,227,048
Capital Stock				8,520,521	8,520,521	8,176,532
Capital Surplus				16,619,594	16,619,594	10,820,744
Retained Earnings	Before Appropriation			70,148,728	86,616,845	63,105,566
	After Appropriation			68,486,273	53,367,760	32,855,543
Unrealized Loss on Financial Instruments				203,768	2,939	(885)
Cumulative Translation Adjustments				(1,057,559)	32,134	(579,849)
Net Loss Not Recognized As Pension Cost				(374)	(293)	(121)
Treasury Stock				(14,065,490)	(10,365,144)	(6,852,493)
Total Stockholders' Equity	Before Appropriation			80,369,215	101,426,596	74,714,494
	After Appropriation			78,706,760	68,177,511	44,823,405

(3) Abbreviated Consolidated Balance Sheets - IFRS

Unit：NT$ thousands

Item		Year 2014	2013	2012	2011	2010	As of 2015.03.31
Current Assets		110,286,950	111,507,281	136,132,425	190,682,395	Abbreviated consolidated balance sheet was based on ROC GAAP	114,095,272
Properties		23,435,556	25,561,399	25,990,766	21,715,633		22,838,389
Intangible Assets		7,209,291	8,664,066	11,683,170	22,767,479		6,736,526
Other Assets		22,906,477	26,896,441	33,442,631	20,946,323		21,804,733
Total Assets		163,838,274	172,629,187	207,248,992	256,111,830		165,474,920
Current Liabilities	Before Appropriation	83,258,739	94,513,990	126,268,363	153,434,018		85,535,268
	After Appropriation	*	94,513,990	127,930,818	186,683,103		*
Non-Current Liabilities		246,162	407,537	707,935	383,207		245,407
Total Liabilities	Before Appropriation	83,504,901	94,921,527	126,976,298	153,817,225		85,780,675
	After Appropriation	*	94,921,527	128,638,753	187,066,310		*
Capital Stock		8,349,521	8,423,505	8,520,521	8,520,521		8,280,381
Capital Surplus		15,140,687	15,360,307	16,601,557	16,601,557		15,110,690
Retained Earnings	Before Appropriation	59,531,103	66,286,308	70,102,031	86,542,008		56,330,251
	After Appropriation	*	66,286,308	68,439,576	53,292,923		*
Other Equity		1,062,118	557,698	(885,925)	2,939		(27,077)
Treasury Stock		(3,750,056)	(12,920,158)	(14,065,490)	(10,365,144)		-
Non-Controlling Interest		-	-	-	992,724		-
Total Stockholders' Equity	Before Appropriation	80,333,373	77,707,660	80,272,694	102,294,605		79,694,245
	After Appropriation	*	77,707,660	78,610,239	69,045,520		*

*：Subject to change after shareholders' meeting resolution

(4) Abbreviated Consolidated Balance Sheets – ROC GAAP

Unit：NT$ thousands

Item		Year 2014	2013	2012	2011	2010
Current Assets		Abbreviated consolidated balance sheet was based on IFRS		139,658,980	192,859,891	168,606,486
Long-term Investments				10,197,272	3,685,262	1,232,145
Properties				25,651,292	21,512,478	14,024,329
Intangible Assets				11,520,674	22,560,788	935,650
Other Assets				19,575,908	15,178,544	5,583,134
Total Assets				206,604,126	255,796,963	190,381,744
Current Liabilities	Before Appropriation			126,174,912	153,334,697	115,641,103
	After Appropriation			127,837,367	186,583,782	145,532,192
Long-term Liabilities				-	-	12,188
Other Liabilities				59,999	42,946	13,959
Total Liabilities	Before Appropriation			126,234,911	153,377,643	115,667,250
	After Appropriation			127,897,366	186,626,728	145,558,339
Capital Stock				8,520,521	8,520,521	8,176,532
Capital Surplus				16,619,594	16,619,594	10,820,744
Retained Earnings	Before Appropriation			70,148,728	86,616,845	63,150,566
	After Appropriation			68,486,273	53,367,760	32,855,543
Unrealized Loss on Financial Instruments				203,768	2,939	(885)
Cumulative Translation Adjustments				(1,057,559)	32,134	(579,849)
Net Loss Not Recognized As Pension Cost				(347)	(293)	(121)
Treasury				(14,065,490)	(10,365,144)	(6,852,493)
Equity Attribute To The Stockholders Of The Parent				80,369,215	101,426,596	74,714,494
Minority Interest				-	992,724	-
Total Stockholders' Equity	Before Appropriation			80,369,215	102,419,320	74,714,494
	After Appropriation			78,706,760	69,170,235	44,823,405

2. Abbreviated Income Statements for the Past Five Fiscal Years

(1) Abbreviated Income Statement – IFRS

Unit：NT$ thousands

Item	Year 2014	2013	2012	2011	2010
Revenues	174,793,564	194,294,044	270,701,687	Abbreviated income statement was based on ROC GAAP	
Gross Profit	31,264,301	33,969,488	56,994,793		
Operating Loss	481,485	(1,636,453)	14,770,387		
Non-operating Income and Expenses	1,049,730	351,246	2,162,323		
Net Income (Loss) Before Tax	1,531,215	(1,285,207)	16,932,710		
Net Income (Loss) from Continuing Operations	1,483,046	(1,323,785)	16,813,575		
Non-Continuing Operations Loss	-	-	-		
Net (Loss) Income	1,483,046	(1,323,785)	16,813,575		
Other Comprehensive Income For The Year –Net Of Income Tax	873,654	1,428,310	(893,331)		
Total Comprehensive Income For The Year	2,356,700	104,525	15,920,244		
Basic Earnings (Loss) Per Share	1.80	(1.60)	20.21		

(2) Abbreviated Income Statement – ROC GAAP

Unit：NT$ thousands

Item	Year 2014	2013	2012	2011	2010
Revenues	Abbreviated income statement was based on IFRS		270,701,687	455,079,186	275,046,954
Gross Profit			56,989,072	119,754,046	79,556,972
Operating Income			14,762,895	64,860,542	42,295,343
Non-operating Income and Gains			2,317,531	5,060,293	2,536,080
Non-operating Expenses and Losses			155,323	71,164	340,114
Income from Continuing Operation before Income Tax			16,925,103	69,849,671	44,491,309
Income from Continuing Operations			16,780,968	61,975,796	39,533,600
Income (Loss) from Discontinued Operations			-	-	-
Income (Loss) from Extraordinary Items			-	-	-
Cumulative Effect of Changes in Accounting Principle			-	-	-
Net Income			16,780,968	61,975,796	39,533,600
Basic Earnings Per Share			20.17	73.32	46.18

(3) Abbreviated Consolidated Income Statement – IFRS

Item	Year 2014	2013	2012	2011	2010	As of 2015.03.31
Revenue	187,911,200	203,402,648	289,020,175	Abbreviated consolidated income statement was based on ROC GAAP		41,524,272
Gross Profit	40,755,095	42,270,753	72,930,849			8,162,771
Operating Income (Loss)	668,770	(3,970,522)	18,827,314			20,473
Non-operating Income and Expenses	1,314,656	3,774,878	630,751			493,782
Net Income (Loss) Before Tax	1,983,426	(195,644)	19,458,065			514,255
Net Income (Loss) from Continuing Operations	1,483,046	(1,323,785)	17,621,793			360,057
Non-Continuing Operations Loss	-	-	-			-
Net Income (Loss)	1,483,046	(1,323,785)	17,621,793			360,057
Other Comprehensive Income and Loss for the Period, Net of Income Tax	873,654	1,428,310	(893,331)			(1,157,121)
Total Comprehensive Income for the Period	2,356,700	104,525	16,728,462			(797,064)
Allocations of Profit or Loss for the Period Attributable to: Owners of the Parent	1,483,046	(1,323,785)	16,813,575			360,057
Allocations of Profit or Loss for the Period Attributable to: Non-controlling Interest	-	-	808,218			-
Allocations of Total Comprehensive Income for the Period Attributable to: Owners of the Parent	2,356,700	104,525	15,920,244			(797,064)
Allocations of Total Comprehensive Income for the Period Attributable to: Non-controlling Interest	-	-	808,218			-
Basic Earnings (Loss) Per Share	1.80	(1.60)	20.21			0.43

(4) Abbreviated Consolidated Income Statement – ROC GAAP

Unit：NT$ thousands

Item	Year 2014	2013	2012	2011	2010
Revenues	Abbreviated consolidated income statement was based on IFRS		289,020,175	465,794,773	278,761,244
Gross Profit			72,925,077	131,797,527	83,868,739
Operating Income			18,819,707	68,787,767	44,132,581
Non-operating Income and Gains			2,240,310	2,783,264	1,142,944
Non-operating Expenses and Losses			1,609,559	147,344	311,137
Income from Continuing Operations Before Income Tax			19,450,458	71,423,687	44,964,388
Income from Continuing Operations After Tax			17,589,186	62,299,048	39,514,844
Income (Loss) from Discontinued Operations			-	-	-
Income (Loss) from Extraordinary Items			-	-	-
Cumulative Effect of Changes in Accounting Principle			-	-	-
Net Income			17,589,186	62,299,048	39,514,844
Net Income Attribute to Shareholders of the Parent			16,780,968	61,975,796	39,533,600
Basic Earnings Per Share			20.17	73.32	46.18

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

Year	CPA Firm	Certified Public Accountant	Auditor's Opinion
2010	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2011	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2012	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Tze-Chun Wang	Unqualified Opinion
2013	Deloitte Touche Tohmatsu	Ming-Hsien Yang and Wen-Ya Hsu	Unqualified Opinion
2014	Deloitte Touche Tohmatsu	Wen-Ya Hsu and Casey Lai	Unqualified Opinion

3. Financial Analysis for the Past Five Fiscal Years

(1) Financial Analysis for the Past Five Fiscal Years

Item		2014	2013	2012	2011	2010
Capital Structure Analysis	Debt Ratio (%)	51	54	59	Financial analysis was based on ROC GAAP	
	Long-term Fund to Fixed Assets Ratio (%)	431	393	407		
Liquidity Analysis	Current Ratio (%)	103	97	103		
	Quick Ratio (%)	80	72	82		
	Debt Services Coverage Ratio (%)	94	(195)	52,916		
Operating Performance Analysis	Average Collection Turnover (Times)	5.65	5.43	5.02		
	Days Sales Outstanding	65	67	73		
	Average Inventory Turnover (Times)	7.66	7.12	7.85		
	Average Payment Turnover (Times)	3.65	2.62	2.84		
	Average Inventory Turnover Days	48	51	46		
	Fixed Assets Turnover (Times)	9.37	9.83	13.72		
	Total Assets Turnover (Times)	1.07	1.16	1.37		
Profitability Analysis	Return on Total Assets (%)	0.90	(0.72)	7.57		
	Return on Equity (%)	1.88	(1.68)	18.52		
	Ratio of income before tax to paid-in capital (%)	18.34	(15.26)	198.73		
	Net Margin (%)	0.85	(0.68)	6.21		
	Basic Earnings Per Share (NT$)	1.80	(1.60)	20.21		
Cash Flow	Cash Flow Ratio (%)	0.72	(14.76)	19.50		
	Cash Flow Adequacy Ratio (%)	110.33	113.13	128.67		
	Cash Flow Reinvestment Ratio (%)	0.65	(17.28)	(12.04)		
Leverage	Operating Leverage	37.00	(5.87)	2.37		
	Financial Leverage	1	1	1		

1. Capital Structure & Liquidity Analyses

As of year-end 2014, our debt ratio stood at 51% lower than last year level and current and quick ratios were both lower at 103% and 80%, respectively. This was because the weight of decrease in current and quick ratio for 2014 was lower than that in current liabilities. The long-term funds to fixed asset ratio for 2014 increased to 431% compared to 2013 due to profiting from loss with increased equity.

2. Operating Performance Analysis

Due to decline in revenue, fixed asset turnover, total asset turnover, and average collection turnover were all lower than the previous year. Operation cost also lowered, inventory and account payable items also decreased, causing inventory turnover days and payment turnover days to be raised compared to the previous year.

3. Profitability Analysis

Though experiencing decrease in revenue for 2014 due to competition in international markets, HTC managed to profit in 2014 from loss with effective control on operating costs and savings on operating expenses. Profitability ratio rose compared to the previous year with $1.80 for basic earnings per share.

4. Cash Flow Analysis

In 2014, HTC managed to profit from loss with a good inventory management and end-term receipt of cash for its account receivables. Net cash flow from operating activities turned into net inflow while both cash flow ratio and cash reinvestment ratio turned positive. Cash flow adequacy ratio decreased to 110.33% compared to 2013 because of decrease in cash flow in 2014 from the operating activities for the last five years.

(2) Financial Analysis – ROC GAAP

Item		2014	2013	2012	2011	2010
Capital Structure Analysis	Debt Ratio (%)	Financial analysis was based on IFRS		60	59	59
	Long-term Fund to Fixed Assets Ratio (%)			403	658	683
Liquidity Analysis	Current Ratio (%)			103	123	144
	Quick Ratio (%)			80	100	120
	Debt Services Coverage Ratio (%)			52,892	6,806	967,203
Operating Performance Analysis	Average Collection Turnover (Times)			5.02	6.95	5.92
	Days Sales Outstanding			73	53	62
	Average Inventory Turnover (Times)			7.85	12.11	11.77
	Average Payment Turnover (Times)			2.78	4.85	4.59
	Average Inventory Turnover Days			46	30	31
	Fixed Assets Turnover (Times)			13.58	29.51	25.14
	Total Assets Turnover (Times)			1.36	1.83	1.49
Profitability Analysis	Return on Total Assets (%)			8	29	26
	Return on Equity (%)			18	70	56
	Paid-in Capital Ratio (%) – Operating Income			173	761	517
	Paid-in Capital Ratio (%) – Pre-tax Income			199	820	544
	Net Margin (%)			6	14	14
	Basic Earnings Per Share (NT$)			20.17	73.32	46.18
Cash Flow	Cash Flow Ratio (%)			19	58	37
	Cash Flow Adequacy Ratio (%)			129	163	157
	Cash Flow Reinvestment Ratio (%)			(12)	52	26
Leverage	Operating Leverage			2.37	1.35	1.43
	Financial Leverage			1	1	1

(3) Consolidated Financial Analysis - IFRS

Item		Year 2014	2013	2012	2011	2010	As of 2015.03.31
Capital Structure Analysis	Debt Ratio (%)	51	55	61	Financial analysis was based on ROC GAAP		52
	Long-term Fund to Fixed Assets Ratio (%)	343	304	309			349
Liquidity Analysis	Current Ratio (%)	132	118	108			133
	Quick Ratio (%)	104	87	85			101
	Debt Services Coverage Ratio (%)	118	(22)	11,347			346
Operating Performance Analysis	Average Collection Turnover (Times)	6.41	5.83	5.27			4.87
	Days Sales Outstanding	57	63	69			75
	Average Inventory Turnover (Times)	6.34	5.81	6.96			6.25
	Average Payment Turnover (Times)	3.27	2.69	2.84			2.91
	Average Inventory Turnover Days	58	63	52			58
	Fixed Assets Turnover (Times)	8.02	7.96	11.12			1.82
	Total Assets Turnover (Times)	1.15	1.18	1.39			0.25
Profitability Analysis	Return on Total Assets (%)	0.88	(0.69)	7.61			0.22
	Return on Equity (%)	1.88	(1.68)	19.3			0.45
	Ratio of income before tax to paid-in capital (%)	23.75	(2.32)	228.37			6.21
	Net Margin (%)	0.79	(0.65)	6.1			0.87
	Basic Earnings Per Share (NT$)	1.80	(1.60)	20.21			0.43
Cash Flow	Cash Flow Ratio (%)	(0.41)	(17.17)	18.69			(2.77)
	Cash Flow Adequacy Ratio (%)	105.69	109.71	126.39			101.45
	Cash Flow Reinvestment Ratio (%)	(0.36)	(19.78)	(10.66)			(2.50)
Leverage	Operating Leverage	37.00	(5.87)	2.37			259.23
	Financial Leverage	1	1	1			1

1. Capital Structure & Liquidity Analyses

As of year-end 2014, our debt ratio stood at 51%, slightly lower than the 2013 level and current and quick ratios were both lower at 132% and 104%, respectively. This was because the weight of decrease in current and quick ratio for 2014 was lower than that in current liabilities. The long-term funds to fixed asset ratio for 2014 increased to 343% compared to 2013 due to profiting from loss with increased equity.

2. Operating Performance Analysis

Compared to the previous year, total asset turnover decreased because of a decrease in operating income. As no fixed asset of a large amount was purchased for this year and continued to recognized depreciation, the decrease in total amount of fixed asset caused the increase in fixed asset turnover compared to the previous year. Collection turnover increased compared to the previous year due to normal receipt of account receivables and extent of decrease in account receivables amount more than that in operating income. Moreover, operating cost decreased in response to decrease in operating income. Given the extent of decrease in inventory and account payable that is larger than that in operating cost, both the turnover of inventory and payable rose compared to the previous year.

3. Profitability Analysis

Though experiencing decrease in revenue for 2014 due to competition in international markets, HTC managed to profit in 2014 from loss with effective control on operating costs and savings on operating expenses. Profitability ratio rose compared to the previous year with $1.80 for basic earnings per share.

4. Cash Flow Analysis

In 2014, HTC managed to profit from loss with a good inventory management and end-term receipt of cash for its account receivables. Net cash flow from operating activities outflow decreased while both cash flow ratio and cash reinvestment ratio turned positive. Cash flow adequacy ratio decreased to 105.69% compared to 2013 because of decrease in cash flow in 2014 from the operating activities for the last five years.

(4) Consolidated Financial Analysis – ROC GAAP

Item (Note 1)			Year 2014	2013	2012	2011	2010
Capital Structure Analysis	Debt Ratio (%)		Financial analysis was based on IFRS		61	60	61
	Long-term Fund to Fixed Assets Ratio (%)				313	476	533
Liquidity Analysis	Current Ratio (%)				111	126	146
	Quick Ratio (%)				85	102	120
	Debt Services Coverage Ratio (%)				11,342	2,307	12,624
Operating Performance Analysis	Average Collection Turnover (Times)				5.27	7.23	6.14
	Days Sales Outstanding				69	50	59
	Average Inventory Turnover (Times)				6.96	10.55	10.06
	Average Payment Turnover (Times)				2.79	4.66	4.35
	Average Inventory Turnover Days				52	35	36
	Fixed Assets Turnover (Times)				11.27	21.65	19.88
	Total Assets Turnover (Times)				1.40	1.82	1.46
Profitability Analysis	Return on Total Assets (%)				8	28	26
	Return on Equity (%)				19	70	56
	Paid-in Capital Ratio (%)	Operating Income			221	807	540
		Pre-tax Income			228	838	550
	Net Margin (%)				6	13	14
	Basic Earnings Per Share (NT$)				20.17	73.32	46.18
Cash Flow	Cash Flow Ratio (%)				18	58	40
	Cash Flow Adequacy Ratio (%)				126	158	150
	Cash Flow Reinvestment Ratio (%)				(11)	53	32
Leverage	Operating Leverage				2.37	1.35	1.43
	Financial Leverage				1	1	1

Note 1: Glossary

a. Financial Structure
(1) Debt Ratio = Total Liabilities / Total Assets.
(2) Ratio of Long-Term Capital To Property, Plant And Equipment = (Total Equity + Non-Current Liabilities) / Net Worth of Property, Plant And Equipment

b. Solvency
(1) Current Ratio = Current Assets / Current Liabilities.
(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities.
(3) Interest Coverage Ratio = Income before Income Tax And Interest Expenses / Current Interest Expenses

c. Operating ability
(1) Receivables (including accounts receivable and notes receivable arising from business oeprations) turnover rate = net sales / average receivables (including accounts receivable and notes receivable arising from business operations) for each period
(2) Days Sales Outstanding = 365 / Average Collection Turnover.
(3) Average Inventory Turnover = Cost of Sales / Average Inventory.
(4) Payables (Including Accounts Payable and Notes Payable Arising from Business Operations) Turnover Rate = Cost of Sale / Average Payables (Including Accounts Payable and Notes Payable Arising from Business Operations) For Each Period
(5) Average Inventory Turnover Days = 365 / Average Inventory Turnover.
(6) Property, Plant and Equipment Turnover Rate = Net Sales / Average Net Worth of Property, Plant and Equipment
(7) Total Asset Turnover Rate = Net Sales / Average Total Assets

d. Profitability
(1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets.
(2) Return on Equity = Net Income / Average Total Equity.
(3) Profit Margin before Tax = Net Income / Net Sales
(4) Earnings per Share = (Profit And Loss Attributable to Owners of the Parent – Dividends on Preferred Shares) / Weighted Average Number of Issued Shares

e. Cash Flow
(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities.
(2) Net Cash Flow Adequacy Ratio = Net Cash Flow from Operating Activities for the Most Recent Five Years / (Capital Expenditures + Inventory Increase + Cash Dividend) Additions, and Cash Dividend.
(3) Cash Flow Reinvestment Ratio = (Net Cash Flow from Operating Activities – Cash Dividend) / Gross Property, Plant and Equipment Value + Long-Term Investment + Other Non-Current Assets + Working Capital)

f. Leverage
(1) Operating Leverage = (Net Operating Revenue – Variable Operating Costs and Expenses) / Operating Income
(2) Financial Leverage = Operating Income / (Operating Income / Interest Expenses)

4. 2014 Supervisors' Report

HTC CORPORATION
SUPERVISORS AUDIT REPORT

The Board of Directors has prepared the Company's 2014 Business Report, Financial Statements and Earnings Distribution Proposal. HTC Corporation's Financial Statements have been audited and certified by Hsu, Wen-Ya, CPA, and Lai Casey, CPA, of Deloitte & Touche and an audit report relating to the Financial Statements has been issued. The Business Report, Financial Statements and Earnings Distribution Proposal have been reviewed and considered to comply with relevant rules by the undersigned, the supervisor of HTC Corporation. According to Article 219 of the Company Law, we hereby submit this report.

HTC CORPORATION
Supervisor:
Huang-Chieh Chu

Supervisor:
Way-Chih Investment Co., Ltd.
Representative:
Shao-Lun Lee

April 15, 2015

5. Independent Auditors' Report

The Board of Directors and Stockholders

HTC Corporation

We have audited the accompanying balance sheets of HTC Corporation (the "Company") as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

February 6, 2015

Notice to Readers

The accompanying 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 the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

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

HTC CORPORATION

BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	2014		2013	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$36,605,790	22	$33,034,504	20
Financial assets at fair value through profit or loss - current (Notes 7 and 28)	262,544	-	162,297	-
Trade receivables, net (Note 11)	12,405,044	8	13,966,622	8
Trade receivables - related parties, net (Notes 11 and 29)	16,250,234	10	13,203,577	8
Other receivables (Note 11)	324,427	-	1,856,396	1
Current tax assets (Note 24)	45,994	-	24,192	-
Inventories (Note 12)	14,430,309	9	18,463,656	11
Prepayments (Notes 13 and 29)	4,630,779	3	3,596,806	2
Other current financial assets (Notes 10 and 30)	-	-	2,359,041	2
Other current assets	95,146	-	125,019	-
Total current assets	85,050,267	52	86,792,110	52
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Note 28)	93	-	239	-
Financial assets measured at cost - non-current (Notes 9 and 28)	515,861	-	515,861	-
Investments accounted for using equity method (Notes 14 and 29)	42,495,754	26	42,130,349	25
Property, plant and equipment (Notes 15 and 29)	18,660,108	12	19,773,608	12
Intangible assets (Note 16)	1,222,721	1	1,650,891	1
Deferred tax assets (Note 24)	6,483,671	4	6,475,936	4
Refundable deposits (Note 28)	68,984	-	75,081	-
Prepaid pension cost - non-current (Note 20)	109,292	-	125,894	-
Other non-current assets (Note 13)	8,405,463	5	10,014,225	6
Total non-current assets	77,961,947	48	80,762,084	48
TOTAL	$163,012,214	100	$167,554,194	100

(Continued)

	2014		2013	
LIABILITIES AND EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 28)	$22,424	-	$-	-
Note and trade payables (Note 17)	40,815,810	25	42,788,723	26
Trade payable - related parties (Notes 17 and 29)	6,508,521	4	5,622,019	4
Other payables (Notes 18 and 29)	29,246,053	18	33,562,853	20
Current tax liabilities (Note 24)	11,982	-	303	-
Provisions - current (Note 19)	5,442,380	4	7,224,637	4
Other current liabilities (Note 18)	509,131	-	532,805	-
Total current liabilities	82,556,301	51	89,731,340	54
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 24)	121,380	-	114,034	-
Guarantee deposits received (Note 28)	1,160	-	1,160	-
Total non-current liabilities	122,540	-	115,194	-
Total liabilities	82,678,841	51	89,846,534	54
EQUITY (Note 21)				
Share capital - common stock	8,349,521	5	8,423,505	5
Capital surplus	15,140,687	9	15,360,307	9
Retained earnings				
Legal reserve	18,149,350	11	18,149,350	11
Special reserve	-	-	854,138	1
Unappropriated earnings	41,381,753	25	47,282,820	28
Other equity	1,062,118	1	557,698	-
Treasury shares	(3,750,056)	(2)	(12,920,158)	(8)
Total equity	80,333,373	49	77,707,660	46
TOTAL	$163,012,214	100	$167,554,194	100

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

(Concluded)

HTC CORPORATION

STATEMENTS OF COMPREHEN SIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	2014		2013	
	Amount	%	Amount	%
REVENUES (Notes 8, 22 and 29)	$174,793,564	100	$194,294,044	100
COST OF REVENUES (Notes 12, 20, 23 and 29)	143,529,263	82	160,324,556	82
GROSS PROFIT	31,264,301	18	33,969,488	18
UNREALIZED GAINS	(955,021)	(1)	(1,611,132)	(1)
REALIZED GAINS	1,611,132	1	2,354,363	1
REALIZED GROSS PROFIT	31,920,412	18	34,712,719	18
OPERATING EXPENSES (Notes 20, 23 and 29)				
Selling and marketing	15,587,029	9	18,767,921	10
General and administrative	4,143,950	2	6,149,762	3
Research and development	11,707,948	7	11,431,489	6
Total operating expenses	31,438,927	18	36,349,172	19
OPERATING PROFIT (LOSS)	481,485	-	(1,636,453)	(1)
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 23 and 29)	392,761	-	675,659	-
Other gains and losses (Notes 8 and 23)	85,809	-	758,009	-
Finance costs	(16,485)	-	(6,550)	-
Share of the profit or loss of subsidiaries, associates and joint ventures (Note 14)	587,645	1	(1,075,872)	-
Total non-operating income and expenses	1,049,730	1	351,246	-

(Continued)

	2014		2013	
	Amount	%	Amount	%
PROFIT (LOSS) BEFORE INCOME TAX	$1,531,215	1	$(1,285,207)	(1)
INCOME TAX (Note 24)	(48,169)	-	(38,578)	-
PROFIT (LOSS) FOR THE YEAR	1,483,046	1	(1,323,785)	(1)
OTHER COMPREHENSIVE INCOME AND LOSS				
Exchange differences on translating foreign operations (Note 21)	903,136	-	1,649,412	1
Unrealized (loss) gain on available-for-sale financial assets (Note 21)	(146)	-	42	-
Cash flow hedge (Note 21)	-	-	(194,052)	-
Actuarial gain and loss arising from defined benefit plans (Note 20)	(33,166)	-	(16,976)	-
Share of the other comprehensive income of subsidiaries, associates and joint ventures	(150)	-	(11,887)	-
Income tax relating to the components of other comprehensive income (Notes 20 and 24)	3,980	-	1,771	-
Other comprehensive income and loss for the year, net of income tax	873,654	-	1,428,310	1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$2,356,700	1	$104,525	-
EARNINGS (LOSS) PER SHARE (Note 25)				
Basic	$1.80		$(1.60)	
Diluted	$1.80		$(1.60)	

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

(Concluded)

HTC CORPORATION

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	Share Capital		Retained Earning			Other Equity					
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Cash Flow Hedge	Unearned Employee Benefit	Treasury Shares	Total Equity
BALANCE, JANUARY 1, 2013	$8,520,521	$16,601,557	$16,471,254	$-	$53,630,777	$(1,089,693)	$9,716	$194,052	$-	$(14,065,490)	$80,272,694
Appropriation of 2012 earnings											
Legal reserve	-	-	1,678,096	-	(1,678,096)	-	-	-	-	-	-
Special reserve	-	-	-	854,138	(854,138)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,662,455)	-	-	-	-	-	(1,662,455)
Loss for the year ended December 31, 2013	-	-	-	-	(1,323,785)	-	-	-	-	-	(1,323,785)
Other comprehensive income and loss for the year ended December 31, 2013	-	-	-	-	(15,313)	1,649,412	(11,737)	(194,052)	-	-	1,428,310
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(1,033,846)	(1,033,846)
Retirement of treasury stock	(97,016)	(1,267,992)	-	-	(814,170)	-	-	-	-	2,179,178	-
Share-based payments	-	26,742	-	-	-	-	-	-	-	-	26,742
BALANCE, DECEMBER 31, 2013	8,423,505	15,360,307	18,149,350	854,138	47,282,820	559,719	(2,021)	-	-	(12,920,158)	77,707,660
The loss off-setting for 2013											
Special reserve reversed	-	-	-	(854,138)	854,138	-	-	-	-	-	-
Profit for the year ended December 31, 2014	-	-	-	-	1,483,046	-	-	-	-	-	1,483,046
Other comprehensive income and loss for the year ended December 31, 2014	-	-	-	-	(29,336)	903,136	(146)	-	-	-	873,654
Retirement of treasury shares	(119,984)	(841,203)	-	-	(8,208,915)	-	-	-	-	9,170,102	-
Share-based payments	46,000	621,583	-	-	-	-	-	-	(398,570)	-	269,013
BALANCE, DECEMBER 31, 2014	$8,349,521	$15,140,687	$18,149,350	$-	$41,381,753	$1,462,855	$(2,167)	$-	$(398,570)	$(3,750,056)	$80,333,373

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

HTC CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before income tax	$1,531,215	$(1,285,207)
Adjustments for:		
Depreciation expense	1,774,782	1,602,946
Amortization expense	649,887	651,632
Impairment loss recognized on trade receivables	-	991,821
Finance costs	16,485	6,550
Interest income	(214,092)	(426,679)
Compensation costs of employee share-based payments	244,346	23,443
Share of the profit or loss of subsidiaries, associates and joint ventures	(587,645)	1,075,872
Transfer of property, plant and equipment to expenses	-	1,581
Gain on disposal of intangible assets	-	(110,602)
Impairment losses on non-financial assets	731,833	550,224
Unrealized gains on sales	955,021	1,611,132
Realized gains on sales	(1,611,132)	(2,354,363)
Ineffective portion of cash flow hedges	-	10,467
Changes in operating assets and liabilities		
Increase in financial instruments held for trading	(77,823)	(155,347)
Decrease in trade receivables	1,561,578	4,785,320
(Increase) decrease in trade receivables - related parties	(3,046,657)	6,264,553
Decrease (increase) in other receivables	1,533,217	(521,760)
Decrease in inventories	3,475,767	1,619,172
(Increase) decrease in prepayments	(1,033,973)	48,433
Decrease (increase) in other current assets	29,873	(90,882)
Decrease (increase) in other non-current assets	1,572,293	(1,933,827)
Decrease in note and trade payables	(1,972,913)	(25,938,861)
Increase in trade payable - related parties	886,502	2,719,034
(Decrease) increase in other payables	(4,163,252)	2,129,687
Decrease in provisions	(1,782,257)	(2,879,080)
Decrease in other current liabilities	(23,674)	(654,251)
Cash generated from (used in) operations	449,381	(12,258,992)
Interest received	212,844	473,600
Interest paid	(16,485)	(6,550)
Income tax paid	(54,701)	(1,451,420)
Net cash generated from (used in) operating activities	591,039	(13,243,362)

(Continued)

	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Recovery of the principal amount of held-to-maturity investments	$-	$100,000
Net cash inflow on disposal of subsidiaries	-	22
Proceeds from capital reduction of investments accounted for using equity method	2,007,655	-
Payments for property, plant and equipment	(794,925)	(2,367,429)
Decrease in refundable deposits	6,097	9,866
Decrease in other receivables - related parties	-	6,554,025
Payments for intangible assets	(221,717)	(193,526)
Proceeds from disposal of intangible assets	-	117,380
Decrease in other current financial assets	2,359,041	3,247,679
Dividend received	7,687	7,655
Net cash generated from investing activities	3,363,838	7,475,672
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for treasury shares	-	(1,033,846)
Increase in guarantee deposits received	-	1,160
Net cash outflow on acquisition of subsidiaries	(383,591)	(1,048,594)
Dividends paid to owners of the Company	-	(1,662,455)
Net cash used in financing activities	(383,591)	(3,743,735)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,571,286	(9,511,425)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	33,034,504	42,545,929
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$36,605,790	$33,034,504

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

(Concluded)

HTC CORPORATION

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(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 board of directors and authorized for issue on February 6, 2015.

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

a. The amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) in issue but not yet effective.

Rule No. 1030010325 issued by the Financial Supervisory Commission (FSC) on April 3, 2014, stipulated that the Company should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") endorsed by the FSC and the related amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

New, Amended and Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note)
Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 and January 1, 2010, as appropriate
Amendment to IAS 39 "Embedded Derivatives"	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 and January 1, 2011, as appropriate
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"	July 1, 2010
Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	July 1, 2011

(Continued)

New, Amended and Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note)
Amendment to IFRS 1 "Government Loans"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Transfer of Financial Assets"	July 1, 2011
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"	January 1, 2013
Amendments to IFRS 10 and IFRS 12 and IAS 27 "Investment Entities"	January 1, 2014
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendment to IAS 1 "Presentation of Other Comprehensive Income"	July 1, 2012
Amendment to IAS 12 "Deferred Tax: Recovery of Underlying Assets"	January 1, 2012
IAS 19 (Revised 2011) "Employee Benefits"	January 1, 2013
IAS 27 (Revised 2011) "Separate Financial Statements"	January 1, 2013
IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"	January 1, 2013
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities"	January 1, 2014
IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine"	January 1, 2013

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

(Concluded)

Except for the following, whenever applied, the initial application of the above 2013 IFRSs version and the related amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Company's accounting policies:

1. **IFRS 13 "Fair Value Measurement"**

   IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

   The fair value measurements under IFRS 13 will be applied prospectively from January 1, 2015.

2. **Amendment to IAS 1 "Presentation of Other Comprehensive Income"**

   The amendment to IAS 1 requires items of other comprehensive income to be grouped into those items that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

   The Company will apply the above amendments in presenting the statement of comprehensive income, starting from the year 2015. Items not expected to be reclassified to profit or loss are remeasurements of the defined benefit plans and actuarial gain (loss) arising from defined benefit plans. Items expected to be reclassified to profit or loss are the exchange differences on translating foreign operations, unrealized gain (loss) on available-for-sale financial assets and cash flow hedges. However, the application of the above amendments will not result in any impact on the net profit for the year, other comprehensive income for the year (net of income tax), and total comprehensive income for the year.

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

The Company has not applied the following New IFRSs issued by the IASB but not yet endorsed by the FSC. As of the date the financial statements were authorized for issue, the FSC has not announced their effective dates.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 4)
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28"'Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2017
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.
Note 3: Prospectively applicable to transactions occurring in annual periods beginning on or after January 1, 2016.
Note 4: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application of the above New IFRSs has not had any material impact on the Company's accounting policies, except for the following:

1. IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

b. For debt instruments, if they are held within a business model whose objective is achieved by both 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 gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

Recognition and measurement of financial liabilities

As for financial liabilities, the main changes in the classification and measurement relate to the subsequent measurement of financial liabilities designated as at fair value through profit or loss. The amount of change in the fair value of such financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income and the remaining amount of change in the fair value of that liability is presented in profit or loss, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. If the above accounting treatment would create or enlarge an accounting mismatch in profit or loss, the Company presents all gains or losses on that liability in profit or loss.

Hedge accounting

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

The management anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

2. IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2017.

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

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

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

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is continuingly 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 complete.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 accumulated earnings, 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. Those assets held primarily for trading purposes;
b. Those assets to be realized within twelve months;
c. Cash and cash equivalents from the balance sheet date unless the asset is to be used for an exchange or to settle a liability, or otherwise remains restricted, at more than twelve months after the balance sheet date.

Current liabilities are:

a. Obligations incurred for trading purposes;
b. Obligations 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. An unconditional right to defer settlement of the liability 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 (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, 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 (if any), 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 (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 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 (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, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), 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 are attributed to equity transactions and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Company losing significant influence or joint control), 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

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.

The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

When the Company ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, 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 sidestream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

Jointly Controlled Entities

Joint venture arrangements that involve the establishment of a separate entity in which ventures have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in these parent company only financial statements using the equity method of accounting. Under the equity method, an investment in an jointly controlled entity is initially recognized in the parent company only balance sheet at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the jointly controlled entity. In addition, the Company accounted for its interests in jointly controlled entity at a percentage of its ownership in the jointly controlled entity.

When the Company subscribes for its jointly controlled entity's newly issued shares 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 jointly controlled entity. The Company records such a difference as an adjustment to investments accounted for by the equity method, with a corresponding amount credited or charged to capital surplus. If additional subscription of the new shares of jointly controlled entity results in a decrease in the ownership interest, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that jointly controlled entity 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 jointly controlled entity equals or exceeds the Company's interest in that jointly controlled entity (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 jointly controlled entity), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

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 jointly controlled entity 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.

When necessary, 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 forms part of 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 it ceases to have significant influence over the jointly controlled entity. 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 jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities.

When the Company transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Company' parent company only financial statements only to the extent of interests in the jointly controlled entity that are not related to the Company.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes 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 is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. 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 in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and 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, 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.

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.

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 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.

   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, 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 include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization 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 uncollectible, 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 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 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 and interest rate swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the 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.

Retirement Benefit Costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheets represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognized past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

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 stockholders 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 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 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 Stock

When the Company acquires its outstanding shares that have not been disposed or retired, treasury stock is stated at cost and shown as a deduction in stockholders' 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 stock 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 stock transactions, and the remainder, if any, debited to retained earnings. The carrying value of treasury stock is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Company's treasury stock is retired, the treasury stock 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 stock 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 stock transactions, and the remainder, if any, debited to retained earnings. The sum of the par value and premium on treasury stock in excess of its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, 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 to be 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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, 2014 and 2013, the carrying amounts of accrued marketing and advertising expenses were NT$17,040,517 thousand and NT$19,328,804 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, 2014 and 2013, the carrying amounts of allowances for doubtful debts was NT$3,050,907 thousand, each.

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 determined that the recoverable of intangible assets measured at cost was less than its carrying amount and thus recognized an impairment loss of NT$111,085 thousand for the year ended December 31, 2013.

d. Impairment of goodwill

Test of impairment on goodwill depends on the subjective judgment of management. The management uses subjective judgment to identify cash-generating units, allocates assets and liabilities to cash-generating units, allocates goodwill to cash-generating units, and determines recoverable amount of a cash-generating unit.

The Company determined that the recoverable of goodwill measured at cost was less than its carrying amount and thus recognized an impairment loss of NT$174,253 thousand for the year ended December 31, 2014.

e. Valuation of inventories

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

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

As of December 31, 2014 and 2013, the carrying amounts of inventories were NT$14,430,309 thousand and NT$18,463,656 thousand, respectively.

f. Realization of deferred tax assets

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

As of December 31, 2014 and 2013, the carrying amounts of deferred tax assets were NT$6,483,671 thousand and NT$6,475,936 thousand, respectively.

g. Estimates of warranty provision

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

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

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

As of December 31, 2014 and 2013, the carrying amounts of warranty provision were NT$4,809,312 thousand and NT$6,391,787 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2014	2013
Cash on hand	$1,010	$1,010
Checking accounts and demand deposits	17,174,730	9,320,304
Time deposits (with original maturities less than three months)	19,430,050	23,713,190
	$36,605,790	$33,034,504

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	December 31	
	2014	2013
Bank deposits	0.05%-0.88%	0.20%-0.85%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2014	2013
Financial assets held for trading		
Derivatives financial assets (not under hedge accounting)		
Exchange contracts	$262,544	$162,297
Financial liabilities held for trading		
Derivatives financial liabilities (not under hedge accounting)		
Exchange contracts	$22,424	$-

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2014				
Foreign exchange contracts	Sell	CAD/USD	2015.01.07-2015.03.17	CAD31,500
Foreign exchange contracts	Sell	EUR/USD	2015.01.07	EUR6,000
Foreign exchange contracts	Sell	JPY/USD	2015.01.07-2015.02.25	JPY5,288,510
Foreign exchange contracts	Sell	GBP/USD	2015.01.07-2015.03.17	GBP30,100
Foreign exchange contracts	Buy	RMB/USD	2015.01.07	RMB44,000
Foreign exchange contracts	Buy	USD/NTD	2015.01.12-2015.03.04	USD267,200
Foreign exchange contracts	Buy	SGD/USD	2015.02.25-2015.03.04	SGD88,985
December 31, 2013				
Foreign exchange contracts	Sell	EUR/USD	2014.01.01-2014.01.29	EUR61,000
Foreign exchange contracts	Sell	JPY/USD	2014.03.31	JPY3,755,090
Foreign exchange contracts	Sell	GBP/USD	2014.01.15-2014.01.22	GBP12,000
Foreign exchange contracts	Sell	USD/NTD	2014.01.06-2014.02.05	USD391,700
Foreign exchange contracts	Sell	CAD/USD	2014.01.13-2014.01.29	CAD5,500
Foreign exchange contracts	Buy	USD/RMB	2014.01.08-2014.01.22	USD100,600
Foreign exchange contracts	Buy	CAD/USD	2014.01.13	CAD4,000
Foreign exchange contracts	Buy	RMB/USD	2014.01.08	RMB11,000
Foreign exchange contracts	Buy	EUR/USD	2014.01.15-2014.01.22	EUR18,000
Foreign exchange contracts	Buy	GBP/USD	2014.01.15-2014.01.22	GBP2,000

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 transferred from equity to profit or loss were included in the following line items in the statements of comprehensive income:

	For the Year Ended December 31	
	2014	2013
Revenues	$102,057	$262,648
Other gains and losses	1,939	151,305
	$103,996	$413,953

9. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2014	2013
Domestic unlisted equity investment	$515,861	$515,861
Classified according to financial asset measurement categories		
Available-for-sale financial assets	$515,861	$515,861

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 at the end of reporting period.

10. OTHER CURRENT FINANCIAL ASSETS

	December 31	
	2014	2013
Trust assets for employee benefit	$-	$2,359,041

To protect the rights and interests of its employees, the Company deposited unpaid employee bonus in a new trust account in September 2012. The Company had paid the employee bonus and close the trust account in August 2014.

For details of pledged other current financial assets, please refer to Note 30.

11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2014	2013
Trade receivables		
Trade receivables	$15,455,951	$17,017,529
Trade receivables - related parties	16,250,234	13,203,577
Less: Allowances for impairment loss	(3,050,907)	(3,050,907)
	$28,655,278	$27,170,199
Other receivables		
VAT refund receivables	$58,468	$102,407
Interest receivables	8,592	7,344
Others	257,367	1,746,645
	$324,427	$1,856,396

Trade Receivables

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

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

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

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

Age of impaired trade receivables

	December 31	
	2014	2013
1-90 days	$8,233,369	$10,471,140
91-180 days	3,949,897	406,751
Over 181 days	-	-
	$12,183,266	$10,877,891

The above was shown after deducting the allowance for impairments loss and analyzed on the basis of the past due date.

Movement in the allowance for impairment loss on trade receivables were as follow:

Movement in the allowances for impairment loss

	For the Year Ended December 31	
	2014	2013
Balance, beginning of the year	$3,050,907	$2,073,018
Add: Impairment losses recognized on receivables	-	991,821
Less: Amounts written off as uncollectible	-	(13,932)
Balance, end of the year	$3,050,907	$3,050,907

Other Receivables

Others were primarily prepayments on behalf of vendors or customers, grants from suppliers and withholding income tax of employees' bonuses.

12. INVENTORIES

	December 31	
	2014	2013
Finished goods	$1,009,421	$1,246,743
Work-in-process	697,801	528,331
Semi-finished goods	3,188,532	6,525,186
Raw materials	9,096,247	9,885,652
Inventory in transit	438,308	277,744
	$14,430,309	$18,463,656

The losses on inventories decline amounting to NT$557,580 thousand and NT$439,139 thousand were recognized as cost of revenues for the years ended December 31, 2014 and 2013, respectively.

13. PREPAYMENTS

	December 31	
	2014	2013
Royalty	$10,796,985	$10,425,441
Prepayments to suppliers	1,575,529	2,484,795
Software and hardware maintenance	202,835	130,087
Service	197,702	16,241
Prepaid equipment	126,878	146,783
Molding expenses	29,151	302,385
Others	107,162	105,299
	$13,036,242	$13,611,031
Current	$4,630,779	$3,596,806
Non-current	8,405,463	10,014,225
	$13,036,242	$13,611,031

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 33.

Prepayments to suppliers were primarily for discount purposes and were classified as current or non-current in accordance with their nature.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2014	2013
Investment in subsidiaries	$42,276,929	$41,902,845
Investment in jointly controlled entities	218,825	227,504
	$42,495,754	$42,130,349

Investments in Subsidiaries

	December 31	
	2014	2013
Unlisted equity investments		
H.T.C. (B.V.I.) Corp.	$2,915,646	$2,985,327
Communication Global Certification Inc.	434,336	566,965
High Tech Computer Asia Pacific Pte. Ltd.	32,416,366	29,477,842
HTC Investment Corporation	284,774	303,556
PT. High Tech Computer Indonesia	62	62
HTC I Investment Corporation	260,949	298,654
HTC Holding Cooperatief U.A.	13	13
HTC Investment One (BVI) Corporation	5,964,783	8,270,426
	$42,276,929	$41,902,845

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

	December 31	
	2014	2013
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%

Refer to Note 4 to the consolidated financial statements for the year ended December 31, 2014 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 Jointly Controlled Entity

	December 31	
	2014	2013
Unlisted equity investments		
Huada Digital Corporation	$218,825	$227,504

At the end of the reporting period, the proportion of ownership and voting rights in jointly controlled entities held by the Company at the end of reporting period were as follows:

	December 31	
Company Name	2014	2013
Huada Digital Corporation	50.00%	50.00%

The Company set up a subsidiary Huada, whose main business is software services, in December 2009. In October 2011, Chunghwa Telecom Co., Ltd. invested in Huada. In March 2012, Huada held a stockholders' 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 this investment by the equity method.

Investments in jointly controlled entity 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 for the year ended December 31, 2014 and have been audited for the year ended December 31, 2013. Management believes there is no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income, as the financial statements have not been audited.

15. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2014	2013
Carrying amounts		
Land	$7,462,489	$7,462,489
Buildings	8,096,521	8,245,062
Machinery and equipment	2,641,228	3,529,270
Other equipment	459,870	536,787
	$18,660,108	$19,773,608

Movement of property, plant and equipment for the years ended December 31, 2014 and 2013 were as follows:

	2014				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Cost					
Balance, beginning of the year	$7,462,489	$9,804,511	$9,743,475	$1,197,501	$28,207,976
Additions	-	223,123	352,353	85,806	661,282
Balance, end of the year	7,462,489	10,027,634	10,095,828	1,283,307	28,869,258
Accumulated depreciation					
Balance, beginning of the year	-	1,559,449	6,214,205	660,714	8,434,368
Depreciation expenses	-	371,664	1,240,395	162,723	1,774,782
Balance, end of the year	-	1,931,113	7,454,600	823,437	10,209,150
Net book value, end of the year	$7,462,489	$8,096,521	$2,641,228	$459,870	$18,660,108

	2013					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$7,462,489	$9,520,993	$-	$8,732,565	$969,180	$26,685,227
Additions	-	270,787	1,581	1,069,092	309,839	1,651,299
Disposal	-	(5,995)	-	(56,518)	(64,456)	(126,969)
Reclassification	-	18,726	-	(1,664)	(17,062)	-
Transfer to expense	-	-	(1,581)	-	-	(1,581)
Balance, end of the year	7,462,489	9,804,511	-	9,743,475	1,197,501	28,207,976
Accumulated depreciation						
Balance, beginning of the year	-	1,190,386	-	5,158,999	609,006	6,958,391
Depreciation expenses	-	356,332	-	1,113,388	133,226	1,602,946
Disposal	-	(5,995)	-	(56,518)	(64,456)	(126,969)
Reclassification	-	18,726	-	(1,664)	(17,062)	-
Balance, end of the year	-	1,559,449	-	6,214,205	660,714	8,434,368
Net book value, end of the year	$7,462,489	$8,245,062	$-	$3,529,270	$536,787	$19,773,608

The above items of property, plant and equipment were depreciated on a straight-line basis at the following rates per annum:

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 were depreciated over their estimated useful lives of 40 to 50 years, 20 years and 5 to 10 years, respectively.

There were no interests capitalized for the years ended December 31, 2014 and 2013.

16. INTANGIBLE ASSETS

	December 31	
	2014	2013
Carrying amounts		
Patents	$579,118	$1,027,295
Other intangible assets	643,603	623,596
	$1,222,721	$1,650,891

Movements of intangible assets for the years ended December 31, 2014 and 2013 were as follows:

	2014		
	Patents	Other Intangible Assets	Total
Cost			
Balance, beginning of the year	$2,516,290	$822,150	$3,338,440
Additions	-	221,717	221,717
Balance, end of the year	2,516,290	1,043,867	3,560,157

(Continued)

	2014		
	Patents	Other Intangible Assets	Total
Accumulated amortization			
Balance, beginning of the year	$1,377,910	$198,554	$1,576,464
Amortization expenses	448,177	201,710	649,887
Balance, end of the year	1,826,087	400,264	2,226,351
Accumulated impairment			
Balance, beginning of the year	111,085	-	111,085
Impairment losses	-	-	-
Balance, end of the year	111,085	-	111,085
Net book value, end of the year	$579,118	$643,603	$11,222,721

(Concluded)

	2013		
	Patents	Other Intangible Assets	Total
Cost			
Balance, beginning of the year			
Additions	$2,500,854	$141,128	$2,641,982
Acquisition	22,214	171,312	193,526
Transfer from prepayment	-	509,710	509,710
Disposal	(6,778)	-	(6,778)
Balance, end of the year	2,516,290	822,150	3,338,440
Accumulated amortization			
Balance, beginning of the year	875,514	49,318	924,832
Amortization expenses	502,396	149,236	651,632
Balance, end of the year	1,377,910	198,554	1,576,464
Accumulated impairment			
Balance, beginning of the year	-	-	-
Impairment losses	111,085	-	111,085
Balance, end of the year	111,085	-	111,085
Net book value, end of the year	$1,027,295	$623,596	$1,650,891

17. NOTE AND TRADE PAYABLES

	December 31	
	2014	2013
Note payables	$1,073	$1,355
Trade payables	40,814,737	42,787,368
Trade payables - related parties	6,508,521	5,622,019
	$47,324,331	$48,410,742

The average term of payment is four months. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

18. OTHER LIABILITIES

	December 31 2014	2013
Other payables		
Accrued expenses	$29,058,640	$33,004,452
Payables for purchase of equipment	187,413	340,961
Others	-	217,440
	$29,246,053	$33,562,853
Other current liabilities		
Advance receipts	$234,242	$221,342
Agency receipts	133,572	173,221
Others	141,317	138,242
	$509,131	$532,805

Accrued Expenses

	December 31 2014	2013
Marketing	$17,040,517	$19,328,804
Salaries and bonuses	3,517,402	4,037,445
Services	3,151,186	3,340,826
Materials and molding expenses	2,784,153	1,650,849
Import, export and freight	686,259	620,775
Bonus to employees	654,620	3,278,053
Repairs, maintenance and sundry purchase	254,254	176,361
Others	970,249	571,339
	$29,058,640	$33,004,452

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

19. PROVISIONS

	December 31 2014	2013
Warranty provision	$4,809,312	$6,391,787
Provisions for contingent loss on purchase orders	633,068	832,850
	$5,442,380	$7,224,637

Movement of provisions for the years ended December 31, 2014 and 2013 were as follows:

2014	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$6,391,787	$832,850	$7,224,637
Provisions recognized (reversed)	14,776,377	(33,368)	14,743,009
Amount utilized during the year	(16,482,044)	(166,414)	(16,648,458)
Translation adjustment	123,192	-	123,192
Balance, end of the year	$4,809,312	$633,068	$5,442,380

2013	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$6,780,712	$823,005	$7,603,717
Provisions recognized	12,186,568	359,350	12,545,918
Amount utilized during the year	(12,679,039)	(349,505)	(13,028,544)
Translation adjustment	103,546	-	103,546
Balance, end of the year	$6,391,787	$832,850	$7,224,637

The Company provides warranty service for its customers 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.

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$381,930 thousand and NT$428,469 thousand, representing the contributions payable to these plans by the Company at the rates specified in the plans for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the amounts of contributions payable were NT$88,245 thousand and NT$103,649 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

Based on the defined benefit plan under the Labor Standards Law ("LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributed amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in Bank of Taiwan in the committee's name.

The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund the return generated by employees' pension contribution should not be below the interest rate for a 2-year time deposit with local banks.

The actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out by qualifying actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31 2014	2013
Discount rates	2.000%	1.875%
Expected return on plan assets	2.000%	2.000%
Expected rates of salary increase	4.000%	4.000%

Amounts recognized in profit or loss in respect of these defined benefit plans were as follows:

	For the Year Ended December 31 2014	2013
Current service cost	$9,864	$4,598
Interest cost	7,716	6,388
Expected return on plan assets	(10,985)	(9,858)
	$6,595	$1,128
An analysis by function		
Operating cost	$1,521	$301
Selling and marketing	563	89
General and administration	733	128
Research and development	3,778	610
	$6,595	$1,128

The amounts of actuarial losses recognized in other comprehensive income were NT$33,166 and NT$16,976 thousand for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the amounts of actuarial losses recognized in accumulated other comprehensive income were NT$55,452 and NT$22,286 thousand, respectively.

The amounts included in the balance sheets in respect of the obligation under the defined benefit plans were as follows:

	December 31 2014	2013
Present value of funded defined benefit obligation	$(441,734)	$(411,522)
Fair value of plan assets	551,026	537,416
Defined benefit assets	$109,292	$125,894

Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2014	2013
Opening defined benefit obligation	$411,522	$393,124
Current service cost	9,864	4,599
Interest cost	7,716	6,388
Actuarial losses	34,579	13,730
Benefits paid	(21,947)	(6,319)
Closing defined benefit obligation	$441,734	$411,522

Movement in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2014	2013
Opening fair value of plan assets	$537,416	$512,646
Expected return on plan assets	10,985	9,858
Actuarial losses	1,413	(3,246)
Contributions from the employer	23,159	24,476
Benefits paid	(21,947)	(6,318)
Closing fair value of plan assets	$551,026	$537,416

The major categories of plan assets at the end of the reporting period for each category were disclosed based on the information announced by Bureau of Labor Funds, Ministry of Labor:

	December 31	
	2014	2013
Equity instruments	49.69%	44.77%
Debt instruments	47.48%	54.44%
Others	2.83%	0.79%
	100.00%	100.00%

The Company expects to make a contribution of NT$23,588 thousand to the defined benefit pension plan within one year from December 31, 2014.

21. EQUITY

Share Capital

a. Common stock

	December 31	
	2014	2013
Authorized shares (in thousands of shares)	1,000,000	1,000,000
Authorized capital	$10,000,000	$10,000,000
Issued and fully paid shares (in thousands of shares)	834,952	842,351
Issued capital	$8,349,521	$8,423,505

In September and November 2013, the Company retired 1,912 thousand treasury shares amounting to $19,126 thousand and 7,789 thousand treasury shares amounting to $77,890 thousand, respectively. Also, in February and October 2014, the Company retired 1,999 thousand treasury shares amounting to $19,984 thousand and 10,000 thousand treasury shares amounting to $100,000 thousand, respectively. In November 2014, the Company issued 4,600 thousand restricted shares for employees amounting to $46,000 thousand. As a result, the amount of the Company's outstanding common stock as of December 31, 2014 decreased to $8,349,521 thousand, divided into 834,952 thousand common shares at NT$10 par value. Every common stock carries one vote per share and a right to dividends.

50,000 thousand shares of the Company's shares authorized were reserved for the issuance of employee share options.

b. Global depositary receipts

In November 2003, the Company issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, the Company's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common 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 common shares. As of December 31, 2014, there were 8,328.6 thousand units of GDRs redeemed, representing 33,314.3 thousand common shares, and the outstanding GDRs represented 2,746.2 thousand common shares or 0.33% of the Company's outstanding common shares.

Capital Surplus

	December 31	
	2014	2013
Arising from issuance of common shares	$14,432,437	$14,640,983
Arising from treasury share transactions	-	631,791
Arising from merger	23,801	24,145
Arising from employee share options	250,470	26,742
Arising from expired stock options	36,124	36,646
Arising from employee restricted shares	397,855	-
	$15,140,687	$15,360,307

The capital surplus arising from shares issued in excess of par (including share premium from issuance of common shares, treasury share transactions, merger 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 September and November 2013, the retirement of treasury shares caused decreases of NT$168,625 thousand in additional paid-in capital - issuance of shares in excess of par, NT$9,727 thousand in capital surplus - treasury shares, NT$278 thousand in capital surplus - merger and NT$422 thousand in capital surplus - expired stock options. The difference the carrying value of treasury shares retired in excess of the sum of its par value and premium from issuance of common share was firstly offset against capital surplus - treasury shares by NT$1,088,940 thousand, and the rest offset against unappropriated earnings amounting to NT$814,170 thousand.

In February and October 2014, the retirement of treasury shares caused decreases of $208,546 thousand in additional paid-in capital - issuance of shares in excess of par, $1,499 thousand in capital surplus - treasury shares, $344 thousand in capital surplus - merger and $522 thousand in capital surplus - expired stock options. The difference the carrying value of treasury shares retired in excess of the sum of its par value and premium from issuance of common share was firstly offset against capital surplus - treasury shares by $630,292 thousand, and the rest offset against unappropriated earnings amounting to $8,208,915 thousand.

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

a. To pay taxes.
b. To cover accumulated losses, if any.
c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital.
d. To recognize or reverse special reserve return earnings.
e. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above items (a) to (d).
f. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above items (a) to (d), or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include the affiliates' employees who meet specific requirements prescribed by the board of directors.
g. For any remainder, the board of directors should propose allocation ratios based on the dividend policy set forth in HTC's Articles and propose them at the stockholders' meeting.

As part of a high-technology industry and as a growing enterprise, the Company considers its operating environment, industry developments, and long-term interests of stockholders as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in 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.

The employee bonus for the year ended December 31, 2014 should be appropriated at 5% of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

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 deficit and the legal reserve has exceeded 25% of the Company's capital, the excess may be transferred to capital or distributed in cash.

The loss off-setting for 2013 and appropriations of 2012 earnings had been approved in the shareholders' meetings on June 19, 2014 and June 21, 2013, respectively. The appropriations and dividends per share were as follows:

	(The Loss Off-Setting) Appropriation of Earnings		Dividends Per Share (NT$)	
	For 2013	For 2012	For 2013	For 2012
Legal reserve	$-	$1,678,096	$-	$-
Special reserve (reversal)	(854,138)	854,138	-	-
Cash dividends	-	1,662,455	-	2
Stock dividends	-	-	-	-

No employee bonus was estimated as the Company reported net loss for the year ended December 31, 2013. The bonus to employees for 2012 was approved in the shareholders' meetings on June 21, 2013. The amounts of bonus were as follows:

		Amounts Approved in Shareholders' Meetings	Amounts Recognized in Financial Statements
For 2012	Cash	$976,327	
	Stock	-	
		$976,327	$976,327

The approved amounts of bonus to employees were the same as the accrual amounts recognized in the financial statements for 2012.

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	
	2014	2013
Exchange differences on translating foreign operations	$1,462,855	$559,719
Unrealized losses on available-for-sale financial assets	(2,167)	(2,021)
Unearned employee benefit	(398,570)	-
	$1,062,118	$557,698

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 19, 2014, the shareholders approved a restricted stock plan for employees. Refer to Note 26 for the information of restricted shares issued.

	For the Year Ended December 31	
	2014	2013
Balance, beginning of the year	$-	$-
Issuance of shares	(443,855)	-
Share-based payment expenses recognized	45,285	-
Balance, end of the year	$(398,570)	$-

Treasury Shares

On August 2, 2013, the Company's board of directors passed a resolution to buy back 15,000 thousand Company shares from the open market. The repurchase period was between August 5, 2013 and October 4, 2013, and the repurchase price ranged from NT$140 to NT$290 per share. If the Company's share price is lower than this price range, the Company may continue to buy back its shares. The Company had bought back 7,789 thousand shares for NT$1,033,846 thousand during the repurchase period, which retired by the Company's board of directors on November 5, 2013.

The Company had repurchased company shares from the open market for transferring to employees and some of them had not been transferred before the expiry time. The Board of Directors approved the retirement of 1,999 thousand, 10,000 thousand and 1,912 thousand treasury stocks in February and October 2014 and September 2013, respectively. The related information on the treasury stock transactions was as follows:

(In Thousands of Shares)

Reason to Reacquire	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
For 2014				
To transfer shares to the Company's employees	18,913	-	11,999	6,914
For 2013				
To transfer shares to the Company's employees	20,825	-	1,912	18,913
To maintain the Company's credibility and stockholders' interest	-	7,789	7,789	-
	20,825	7,789	9,701	18,913

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. REVENUE

	For the Year Ended December 31	
	2014	2013
Sale of goods	$171,771,551	$191,186,751
Other operating income	3,022,013	3,107,293
	$174,793,564	$194,294,044

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT$102,057 thousand and NT$262,648 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 2014 and 2013, respectively.

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

a. Other income

	For the Year Ended December 31	
	2014	2013
Interest income		
Cash in bank	$214,092	$214,746
Held-to-maturity financial assets	-	794
Loan	-	211,139
	214,092	426,679
Others	178,669	248,980
	$392,761	$675,659

b. Other gains and losses

	For the Year Ended December 31	
	2014	2013
Net foreign exchange gains	$50,904	$482,568
Net gains arising on financial assets and liabilities classified as held for trading	240,120	162,297
Ineffective portion of cash flow hedge	1,939	151,305
Gain on disposal of intangible assets	-	110,602
Impairment losses	(174,253)	(111,085)
Other losses	(32,901)	(37,678)
	$85,809	$758,009

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 losses on financial assets

	For the Year Ended December 31	
	2014	2013
Trade receivables (included in operating expense)	$-	$991,821

d. Depreciation and amortization

	For the Year Ended December 31	
	2014	2013
Property, plant and equipment	$1,774,782	$1,602,946
Intangible assets	649,887	651,632
	$2,424,669	$2,254,578
Classification of depreciation - by function		
Cost of revenues	$967,355	$873,928
Operating expenses	807,427	729,018
	$1,774,782	$1,602,946
Classification of amortization - by function		
Cost of revenues	$-	$-
Operating expenses	649,887	651,632
	$649,887	$651,632

e. Employee benefits expense

	For the Year Ended December 31	
	2014	2013
Post-employment benefits (Note 20)		
Defined contribution plans	$381,930	$428,469
Defined benefit plans	6,595	1,128
	388,525	429,597
Share-based payments		
Equity-settled share-based payments	244,346	23,443
Other employee benefits	10,493,645	10,529,260
Total employee benefits expense	$11,126,516	$10,982,300
Classification - by function		
Cost of revenues	$4,413,610	$5,625,526
Operating expenses	6,712,906	5,356,774
	$11,126,516	$10,982,300

f. Impairment losses on non-financial assets

	For the Year Ended December 31	
	2014	2013
Inventories (included in cost of revenues)	$557,580	$439,139
Investments accounted for by the equity method (included in other gains and losses)	174,253	-
Intangible assets (including in other gains and losses)	-	111,085
	$731,833	$550,224

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2014	2013
Current tax		
In respect of the current period	$44,578	$3,525
Deferred tax		
In respect of the current period	3,591	35,053
Income tax recognized in profit or loss	$48,169	$38,578

On April 9, 2014, the Ministry of Finance promulgated the amendments to the Assessment Rules Governing Income Tax Returns of Profit-Seeking Enterprises, the Tax Ruling No. 10304540780, and the amendments apply to the filing of income tax returns for 2013 onwards. The applications of such amendments were not to have significant effect on current and deferred tax assets and liabilities for the Company.

The income tax for the years ended December 31, 2014 and 2013 can be reconciled to the accounting profit (loss) as follows:

	For the Year Ended December 31	
	2014	2013
Profit (loss) before income tax	$1,531,215	$(1,285,207)
Income tax calculated at 17%	260,306	-
Effect of expenses that were not deductible in determining taxable profit	54,623	29,858
Share of the profit or loss of subsidiaries, associates and joint ventures	(99,899)	182,898
Effect of temporary differences	(211,439)	(177,703)
Effect of investment tax credits	-	(1,126,249)
Additional 10% income tax on unappropriated earnings	-	1,126,249
Overseas income tax	44,578	3,525
Income tax recognized in profit or loss	$48,169	$38,578

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2014	2013
Deferred tax		
Recognized in current year		
Actuarial gain and loss (tax benefit)	$(3,980)	$(1,771)

c. Current tax assets and liabilities

	December 31	
	2014	2013
Current tax assets		
Tax refund receivable	$45,994	$24,192
Current tax liabilities		
Income tax payable	$11,982	$303

d. Deferred tax balances

The movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2014 and 2013 were as follows:

	2014			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Allowance for loss on decline in value of inventory	$259,715	$(46,107)	$-	$213,608
Unrealized profit	302,267	(92,314)	-	209,953
Unrealized royalties	2,429,433	(816,101)	-	1,613,332
Unrealized marketing expenses	1,629,920	(276,191)	-	1,353,729
Unrealized warranty expense	549,713	27,419	-	577,132
Unrealized contingent losses on purchase orders	99,945	(23,975)	-	75,970
Others	367,515	26,150	-	393,665
Loss carryforward	837,428	1,208,854	-	2,046,282
	$6,475,936	$7,735	$-	$6,483,671
Deferred tax liabilities				
Temporary differences				
Defined benefit plans	$15,108	$1,987	$(3,980)	$13,115
Financial assets at FVTPL	19,476	9,339	-	28,815
Unrealized gain on investments	79,450	-	-	79,450
	$114,034	$11,326	$(3,980)	$121,380

	2013			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Allowance for loss on decline in value of inventory	$465,643	$(205,928)	$-	$259,715
Unrealized profit	365,524	(63,257)	-	302,267
Unrealized royalties	2,985,884	(556,451)	-	2,429,433
Unrealized marketing expenses	1,203,720	426,200	-	1,629,920
Unrealized warranty expense	583,141	(33,428)	-	549,713
Unrealized contingent losses on purchase orders	70,779	29,166	-	99,945
Others	207,980	160,438	(903)	367,515
Loss carryforward	-	837,428	-	837,428
Investment credit	663,047	(663,047)	-	-
	$6,545,718	$(68,879)	$(903)	$6,475,936
Deferred tax liabilities				
Temporary differences				
Defined benefit plans	$35,022	$(17,240)	$(2,674)	$15,108
Financial assets at FVTPL	2,961	16,515	-	19,476
Unrealized gain on investments	112,551	(33,101)	-	79,450
	$150,534	$(33,826)	$(2,674)	$114,034

e. Items for which no deferred tax assets have been recognized

	December 31	
	2014	2013
Loss carryforward	$1,045,579	$466,163
Deductible temporary differences	$3,466,830	$4,263,344

f. Information about unused loss carry-forward and tax-exemption

Loss carryforwards as of December 31, 2014 comprised of:

Remaining Carrying	Expiry Year
$7,662,140	2023
10,525,277	2024
$18,187,417	

Under the Statute for Upgrading Industries, the Company was granted exemption from corporate income tax for 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 liabilities have not been recognized

As of December 31, 2014 and 2013, the taxable temporary differences associated with investment in subsidiaries and branch for which no deferred tax liabilities have been recognized were $897,465 thousand and $559,255 thousand, respectively.

h. Integrated income tax

The imputation credit account ("ICA") information as of December 31, 2014 and 2013, were as follows:

	December 31	
	2014	2013
Unappropriated earnings generated on and after January 1, 1998	$41,381,753	$47,282,820
Balance of ICA	$8,164,935	$6,573,169

	For the Year Ended December 31	
	2014 (Expected)	2013 (Actual)
Creditable ratio for distribution of earning	19.73%	-

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

i. Income tax assessments

Except 2011, the Company's income tax returns through 2012 had been assessed by the tax authorities. However, the Company disagreed with the tax authorities' assessment on its returns for unappropriated earnings of 2009 and applied for the administrative remedial. Nevertheless, under the conservatism guideline, the Company adjusted its income tax for the tax shortfall stated in the tax assessment notices.

25. EARNINGS (LOSS) PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2014	2013
Basic earnings (loss) per share	$1.80	$(1.60)
Diluted earnings (loss) per share	$1.80	$(1.60)

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

Net Profit (Loss) for the Years

	For the Year Ended December 31	
	2014	2013
Profit (loss) for the year	$1,483,046	$(1,323,785)

Shares

Unit: In Thousands of Shares

	For the Year Ended December 31	
	2014	2013
Weighted average number of ordinary shares used in computation of basic earnings (loss) per share	824,194	829,082
Effect of dilutive potential ordinary shares:		
Bonus issue to employees	622	-
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	824,816	829,082

If the Company was able to settle the bonuses paid to employees by cash or shares, the Company presumed that the entire amount of the bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

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 common 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 common 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 common shares on the grant date. For any subsequent changes in the Company's common shares, the exercise price is adjusted accordingly.

Information on employee share options were as follows:

	For the Year Ended December 31			
	2014		2013	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	15,000	$149.0	-	$-
Options granted	19,000	134.5	15,000	149.0
Options forfeited	(2,092)		-	
Balance at December 31	31,908		15,000	
Options exercisable, end of the year	-		-	
Weighted-average fair value of options granted per unit (NT$)	$31.231		$43.603	

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

	December 31	
	2014	2013
Range of exercise price (NT$)	$134.5-$149	$149
Weighted-average remaining contractual life (years)	8.22 years	6.8 years

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

	October 2014	November 2013
Grant-date share price (NT$)	$134.5	$149
Exercise price (NT$)	134.5	149
Expected volatility	33.46%	45.83%
Expected life (years)	10 years	7 years
Expected dividend yield	4.40%	5.00%
Risk-free interest rate	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, the shareholders approved a restricted stock plan for employees with a total amount of $50,000 thousand, consisting of 5,000 thousand shares. On October 31, 2014, the Company's board of directors passed a resolution to issue 4,600 thousand shares.

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

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

If an employee fails to meet the vesting conditions, the Company will recall or buy back and cancel the restricted shares.

Information about outstanding employee restricted shares as of December 31, 2014 was as follows:

Grant-date	November 2, 2014
Grant-date fair value (NT$)	$134.5
Exercise price	Gratuitous
Numbers of shares (thousand shares)	4,600
Vesting period (years)	1-3 years

Compensation Cost of Share-based Payment Arrangements

Compensation cost of share-based payment arrangement were recognized NT$244,346 thousand and NT$23,443 thousand for the years ended December 31, 2014 and 2013, respectively.

27. CAPITAL MANAGEMENT

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

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

28. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Financial instruments not carried 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.

b. Fair value measurements recognized in the parent company only balance sheet.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from 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

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2014

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$-	$262,544	$-	$262,544
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$93	$-	$-	$93
Financial liabilities at FVTPL				
Derivative financial instruments	$-	$22,424	$-	$22,424

December 31, 2013

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$-	$162,297	$-	$162,297
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$239	$-	$-	$239

There were no transfers between Level 1 and 2 for the years ended December 31, 2014 and 2013.

c. Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed corporate bonds). Where such prices were not available, valuation techniques were applied. The estimates and assumptions used by the Company are consistent with those that market participants would use in setting a price for the financial instrument;

- The fair values of derivative instruments were calculated using quoted prices. Where such prices were not available, a discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. The estimates and assumptions used by the Company were consistent with those that market participants would use in setting a price for the financial instrument;

  Foreign currency forward contracts were measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts; and

- The fair values of other financial assets and financial liabilities (excluding those described above) were determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Categories of Financial Instruments

	December 31	
	2014	2013
Financial assets		
FVTPL		
Held for trading	$262,544	$162,297
Loans and receivables (Note 1)	65,654,479	64,495,221
Available-for-sale financial assets (Note 2)	515,954	516,100
Financial liabilities		
FVTPL		
Held for trading	22,424	-
Amortized cost (Note 3)	76,705,116	82,147,976

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other current financial assets, trade receivables, other receivables and refundable deposits.

Note 2: The balances included available-for-sale financial assets and the carrying amount of held for trading 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 Department of Financial and Accounting provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through analyzing 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 and exposure limits 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 Department of Financial and Accounting reported 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 has 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 please refer to Note 32.

Sensitivity analysis

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

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and the forward exchange contracts were entered into cash flow hedges. A positive number below indicates an increase in profit (loss) before income tax or equity where the NTD strengthens 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be a comparable impact on the profit (loss) before income tax or equity, and the balances below would be negative.

	Profit or Loss (1)	Equity (2)
For the year ended December 31, 2014		
USD	$40,670	$-
EUR	(9,028)	-
RMB	(35,725)	-
JPY	2,324	-
For the year ended December 31, 2013		
USD	54,355	-
EUR	(18,430)	-
RMB	(24,673)	-
JPY	3,377	-

1) This was mainly attributable to the exposure outstanding on each currency receivables and payables, which were not hedged at the end of the reporting period.

2) This was mainly as a result of the changes in fair value of derivative instruments designated as hedging instruments in cash flow hedges.

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 of December 31, 2014, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and the carrying amount of financial assets reported on balance sheet. The Company does not issue any financial guarantee involving credit risk.

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

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

c. Liquidity risk

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

1) Liquidity risk tables

The following tables detail the Company's remaining contractual maturity for its derivative financial liabilities and 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. The tables included both interest and principal cash flows.

December 31, 2014

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$19,389,742	$27,934,589	$-
Other payables	10,952,324	18,293,729	-
Other current liabilities	60,588	72,984	-
Guarantee deposits received	-	-	1,160
	30,402,654	46,301,302	1,160
Derivative financial liabilities			
Financial liabilities held for trading	22,424	-	-
	$30,425,078	$46,301,302	$1,160

December 31, 2013

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$15,323,772	$33,086,970	$-
Other payables	11,714,522	21,848,331	-
Other current liabilities	74,952	98,269	-
Guarantee deposits received	-	-	1,160
	$27,113,246	$55,033,570	$1,160

2) Bank credit limit

	December 31	
	2014	2013
Unsecured bank general credit limit		
Amount used	$1,638,476	$1,697,088
Amount unused	43,623,999	45,647,802
	$45,262,475	$47,344,890

29. RELATED-PARTY TRANSACTIONS

Operating Sales

	For the Year Ended December 31	
	2014	2013
Subsidiaries	$58,666,162	$78,299,263
Main management	2,430	2,002
Other related parties - Employees' Welfare Committee	22,404	23,454
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	7,513	12,439
	$58,698,509	$78,337,158

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

	December 31	
	2014	2013
Subsidiaries	$16,249,309	$13,202,268
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	925	1,309
	$16,250,234	$13,203,577

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been given or received for trade receivables from related parties. No bad debt expense had been recognized for the years ended December 31, 2014 and 2013 for the amounts owed by related parties.

Purchase and Outsourcing Expense

	For the Year Ended December 31	
	2014	2013
Purchase		
Subsidiaries	$3,338,212	$3,065,788
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	4,454	62,030
	$3,342,666	$3,127,818
Outsourcing expense		
Subsidiaries	$10,920,530	$9,350,345

Purchase prices for related parties and third parties were similar. Outsourcing expenses were calculated based on contracted processing rate.

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

	December 31	
	2014	2013
Subsidiaries	$6,508,521	$5,613,716
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	-	8,303
	$6,508,521	$5,622,019

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

Loans to Related Parties

On July 19, 2012, the Company's board of directors passed a resolution to offer US$225,000 thousand short-term loan to Beats Electronics, LLC to support the transition of Beats Electronics, LLC into a product company. This loan was secured by all the assets of Beats Electronics, LLC. Term loan must be repaid in full no later than one year from signing date of loan agreement and the repayment can be made in full at any time during the term of the loan or at the repayment date. The calculation of interest is based on LIBOR plus 1.5%, 3.5%, 5.5% and 7.5% for the first quarter to the fourth quarter, respectively. The principal and interest were received in full in June 2013. The interest income amounted to NT$211,139 thousand for the year ended December 31, 2013.

Compensation of Key Management Personnel

The following balances of key management personnel were outstanding for the years end December 31, 2014 and 2013:

	For the Year Ended December 31	
	2014	2013
Short-term benefits	$379,623	$387,902
Post-employment benefits	1,726	2,039
Termination benefits	-	165
Share-based payments	52,461	4,332
	$433,810	$394,438

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

Property, Plant and Equipment Acquired

	For the Year Ended December 31	
	2014	2013
Subsidiaries	$-	$175,444
Other related parties - other related parties' chairperson or its significant stockholder, is the Company's chairperson	-	3,238
	$-	$178,682

As of December 31, 2013, the unpaid amounts was NT$175,931 thousand.

Other Related-party Transactions

a. To enhance product diversity, the Company entered into a trademark and technology license agreement with subsidiaries, associate of subsidiary. The royalty expense were NT$55,996 thousand and NT$222,760 thousand for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013 the amounts of prepaid royalty were NT$54,529 thousand and NT$55,311 thousand, respectively.

b. Subsidiaries and other related parties assisted the Company to expand business overseas and render design, research and development support, consulting services and after-sales services. The Company recognized related expenses amounting to NT$8,667,945 thousand and NT$9,815,920 thousand for the years ended December 31, 2014 and 2013, respectively. The unpaid amount were NT$2,366,626 thousand and NT$2,440,229 thousand as of December 31, 2014 and 2013, respectively.

c. The Company leased staff dormitory owned by a related party under an operating lease agreement. The term of the lease agreement is from April 2012 to March 2015 and the rental payment is determined at the prevailing rates in the surrounding area. The Company recognized and paid rental expenses amounting to NT$5,209 thousand for the years ended December 31, 2014 and 2013, each.

d. Other related parties provided marketing and advertising services to the Company. The marketing expense was NT$16,150 thousand for the year ended December 31, 2014. As of December 31, 2014, the amount of unpaid marketing expense was NT$158 thousand.

30. PLEDGED ASSETS

To protect the rights and interests of its employees, In September 2012, the Company deposited unpaid employee bonus in a new trust account. The Company had paid the employee bonus and closed the trust account in August 2014. The trust account, which is under other current financial assets, had amounted to NT$2,359,041 thousand as of December 31, 2013.

31. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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 evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against 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.

   As of the date that the board of directors approved and authorized for issuing parent company only financial statements, there had been no critical hearing nor had a court decision been made, except for the above.

b. 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. EXCHANGE RATES OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31			
	2014		2013	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets				
Monetary items				
USD	$1,545,692	31.67	$1,520,256	29.93
EUR	179,925	38.49	286,200	41.27
JPY	6,015,360	0.2648	3,007,500	0.2851
RMB	1,339,043	5.10	1,337,371	4.94
Investments accounted for by the equity method				
USD	280,383	31.67	376,021	29.93
SGD	1,393,333	23.95	1,313,548	23.67
Financial liabilities				
Monetary items				
USD	1,823,146	31.67	1,899,417	29.93
EUR	166,276	38.49	254,630	41.27
JPY	6,895,194	0.2648	4,834,941	0.2851
RMB	644,303	5.10	843,809	4.94

33. 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	Contract Term	Description
Apple, Inc.	November 11, 2012 - November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalty payable as prescribed.
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on 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, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
	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.
Telefonaktiebolaget LM Ericsson (PUBL)	December 31, 2014 - December 31, 2016	Authorization to use GSM and wireless technology; royalty payment based on agreement.

6. Independent Auditors' Report

The Board of Directors and Stockholders

HTC Corporation

We have audited the accompanying consolidated balance sheets of HTC Corporation and its subsidiaries (collectively referred to as the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2014 and 2013, and their consolidated financial performance and their consolidated cash flows for the years ended 2014 and 2013, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of HTC Corporation as of and for the years ended December 31, 2014 and 2013 on which we have issued an unqualified report.

February 6, 2015

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 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 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 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 the Republic of China were not translated into English.

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	2014		2013	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 55,743,558	34	$ 53,298,941	31
Financial assets at fair value through profit or loss - current (Notes 7 and 29)	262,544	-	162,297	-
Debt investments with no active market - current (Note 29)	7,918	-	-	-
Trade receivables, net (Notes 11 and 30)	29,140,284	18	23,371,172	14
Other receivables (Note 11)	584,936	-	2,137,653	1
Current tax assets (Note 24)	274,321	-	238,085	-
Inventories (Note 12)	17,213,060	11	23,599,558	14
Prepayments (Note 13)	6,626,106	4	5,803,744	3
Other current financial assets (Notes 10 and 31)	334,954	-	2,771,023	2
Other current assets	99,269	-	124,808	-
Total current assets	110,286,950	67	111,507,281	65
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Note 29)	93	-	239	-
Financial assets measured at cost - non-current (Notes 9 and 29)	2,586,478	2	4,603,061	2
Investments accounted for using equity method (Notes 14 and 30)	234,661	-	227,504	-
Property, plant and equipment (Notes 15 and 30)	23,435,556	14	25,561,399	15
Intangible assets (Note 16)	7,209,291	5	8,664,066	5
Deferred tax assets (Note 24)	8,452,707	5	8,665,235	5
Refundable deposits (Note 29)	262,740	-	352,894	-
Long-term receivables (Notes 11 and 27)	1,342,813	1	1,182,393	1
Prepaid pension cost - non-current (Note 20)	109,138	-	125,715	-
Other non-current assets (Note 13)	9,917,847	6	11,739,400	7
Total non-current assets	53,551,324	33	61,121,906	35
TOTAL	$ 163,838,274	100	$ 172,629,187	100

(Continued)

	2014		2013	
LIABILITIES AND EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 29)	$ 22,424	-	$ -	-
Note and trade payables (Notes 17 and 30)	43,803,343	27	46,275,851	27
Other payables (Notes 18 and 30)	32,237,945	20	38,032,999	22
Current tax liabilities (Note 24)	210,714	-	1,040,128	1
Provisions - current (Note 19)	5,841,179	3	8,208,885	5
Other current liabilities (Note 18)	1,143,134	1	956,127	-
Total current liabilities	83,258,739	51	94,513,990	55
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 24)	202,932	-	151,122	-
Guarantee deposits received (Note 29)	43,230	-	256,415	-
Total non-current liabilities	246,162	-	407,537	-
Total liabilities	83,504,901	51	94,921,527	55
EQUITY (Note 21)				
Share capital - common stock	8,349,521	5	8,423,505	5
Capital surplus	15,140,687	9	15,360,307	9
Retained earnings				
Legal reserve	18,149,350	11	18,149,350	11
Special reserve	-	-	854,138	-
Unappropriated earnings	41,381,753	25	47,282,820	27
Other equity	1,062,118	1	557,698	-
Treasury shares	(3,750,056)	(2)	(12,920,158)	(7)
Total equity	80,333,373	49	77,707,660	45
TOTAL	$ 163,838,274	100	$ 172,629,187	100

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	2014		2013	
	Amount	%	Amount	%
REVENUES (Notes 8, 22 and 30)	$ 187,911,200	100	$ 203,402,648	100
COST OF REVENUES (Notes 12, 20, 23 and 30)	147,156,105	78	161,131,895	79
GROSS PROFIT	40,755,095	22	42,270,753	21
OPERATING EXPENSES (Notes 20, 23 and 30)				
Selling and marketing	21,834,286	12	26,467,742	13
General and administrative	5,204,788	3	7,230,081	4
Research and development	13,047,251	7	12,543,452	6
Total operating expenses	40,086,325	22	46,241,275	23
OPERATING PROFIT (LOSS)	668,770	-	(3,970,522)	(2)
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 23)	834,124	1	1,164,948	1
Other gains and losses (Notes 8 and 23)	506,194	-	2,421,266	1
Finance costs	(16,983)	-	(8,405)	-
Share of the profit or loss of associates and joint ventures (Note 14)	(8,679)	-	197,069	-
Total non-operating income and expenses	1,314,656	1	3,774,878	2
PROFIT (LOSS) BEFORE INCOME TAX	1,983,426	1	(195,644)	-
INCOME TAX (Note 24)	500,380	-	1,128,141	1
PROFIT (LOSS) FOR THE YEAR	1,483,046	1	(1,323,785)	(1)

(Continued)

	2014		2013	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME AND LOSS				
Exchange differences on translating foreign operations (Note 21)	$903,136	-	$1,649,412	1
Unrealized losses on available-for-sale financial assets (Note 21)	(146)	-	(11,738)	-
Cash flow hedge (Note 21)	-	-	(194,052)	-
Actuarial losses arising from defined benefit plans (Note 20)	(33,346)	-	(17,106)	-
Income tax relating to the components of other comprehensive income (Notes 20 and 24)	4,010	-	1,794	-
Other comprehensive income and loss for the year, net of income tax	873,654	-	1,428,310	1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 2,356,700	1	$ 104,525	-
NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$ 1,483,046	1	$ (1,323,785)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$ 2,356,700	1	$ 104,525	-
EARNINGS (LOSS) PER SHARE (Note 25)				
Basic	$ 1.80		$ (1.60)	-
Diluted	$ 1.80		$ (1.60)	-

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	Share Capital		Retained Earning			Other Equity					
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Cash Flow Hedge	Unearned Employee Benefit	Treasury Shares	Total Equity
BALANCE, JANUARY 1, 2013	$8,520,521	$16,601,557	$16,471,254	$-	$ 53,630,777	$(1,089,693)	$ 9,716	$ 194,052	$-	$(14,065,490)	$80,272,694
Appropriation of 2012 earnings											
Legal reserve	-	-	1,678,096	-	(1,678,096)	-	-	-	-	-	-
Special reserve	-	-	-	854,138	(854,138)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,662,455)	-	-	-	-	-	(1,662,455)
Loss for the year ended December 31, 2013	-	-	-	-	(1,323,785)	-	-	-	-	-	(1,323,785)
Other comprehensive income and loss for the year ended December 31, 2013	-	-	-	-	(15,313)	1,649,412	(11,737)	(194,052)	-	-	1,428,310
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(1,033,846)	(1,033,846)
Retirement of treasury stock	(97,016)	(1,267,992)	-	-	(814,170)	-	-	-	-	2,179,178	-
Share-based payments	-	26,742	-	-	-	-	-	-	-	-	26,742
BALANCE, DECEMBER 31, 2013	8,423,505	15,360,307	18,149,350	854,138	47,282,820	559,719	(2,021)	-	-	(12,920,158)	77,707,660
The loss off-setting for 2013											
Special reserve reversed	-	-	-	(854,138)	854,138	-	-	-	-	-	-
Profit for the year ended December 31, 2014	-	-	-	-	1,483,046	-	-	-	-	-	1,483,046
Other comprehensive income and loss for the year ended December 31, 2014	-	-	-	-	(29,336)	903,136	(146)	-	-	-	873,654
Retirement of treasury stock	(119,984)	(841,203)	-	-	(8,208,915)	-	-	-	-	9,170,102	-
Share-based payments	46,000	621,583	-	-	-	-	-	-	(398,570)	-	269,013
BALANCE, DECEMBER 31, 2014	$ 8,349,521	$ 15,140,687	$ 18,149,350	$-	$ 41,381,753	$ 1,462,855	$ (2,167)	$-	$ (398,570)	$ (3,750,056)	$ 80,333,373

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, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before income tax	$ 1,983,426	$ (195,644)
Adjustments for:		
Depreciation expense	2,952,892	2,916,699
Amortization expense	1,868,817	1,968,492
Impairment losses recognized on trade receivables	3,875	1,010,405
Finance costs	16,983	8,405
Interest income	(403,155)	(554,355)
Dividend income	(26,381)	(16,282)
Compensation costs of employee share - based payments	269,013	26,742
Share of the profit or loss of associates and joint ventures	8,679	(197,069)
Losses on disposal of property, plant and equipment	153,493	58
Transfer of property, plant and equipment to expenses	-	2,995
Gain on disposal of intangible assets	-	(108,265)
Gains on sale of investments	(157,995)	(29,735)
Gain on disposal of investments accounted for using equity method	-	(2,637,673)
Impairment loss recognized on financial assets measured at cost	373,257	-
Impairment losses on non-financial assets	695,945	1,281,518
Gain on disposal of subsidiaries/ineffective portion of cash flow hedges	-	(164,969)
Changes in operating assets and liabilities		
Increase in financial instruments held for trading	(77,823)	(155,347)
(Increase) decrease in trade receivables	(5,772,987)	16,845,574
Decrease (increase) in other receivables	1,552,870	(607,949)
Decrease (increase) in inventories	5,864,806	(207,347)
Increase in prepayments	(822,362)	(1,360,194)
Decrease (increase) in other current assets	25,539	(96,724)
Decrease (increase) in other non-current assets	1,779,567	(1,869,090)
Decrease in note and trade payables	(2,472,508)	(27,311,669)
Decrease in other payables	(5,279,307)	(427,233)
Decrease in provisions	(2,367,706)	(672,629)
Increase (decrease) in other current liabilities	187,007	(822,489)
Cash generated from (used in) operations	355,945	(13,373,775)
Interest received	311,262	599,071
Interest paid	(16,983)	(8,405)
Income tax paid	(990,083)	(3,448,352)
Net cash used in operating activities	(339,859)	(16,231,461)

(Continued)

	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	$-	$56,738
Purchase of debt investments with no active market	(7,918)	-
Recovery of the principal amount of held-to-maturity investments	-	100,000
Payments to acquire financial assets measured at cost	(432,463)	(197,684)
Proceeds from disposal of financial assets measured at cost	2,358,135	-
Payments to acquire investments accounted for using equity method	(15,836)	-
Disposal of investments accounted for using equity method	-	7,883,326
Net cash inflow on disposal of subsidiaries	-	4,643,189
Payments for property, plant and equipment	(1,372,934)	(2,855,698)
Proceeds from disposal of property, plant and equipment	16,017	2,609
Increase in refundable deposits	-	(166,428)
Decrease in refundable deposits	90,154	-
Decrease in other receivables - related parties	-	6,554,025
Payments for intangible assets	(244,588)	(223,008)
Disposal of intangible assets	-	117,380
Decrease in other current financial assets	2,436,069	3,790,421
Dividend received	26,381	661,896
Net cash generated from investing activities	2,853,017	20,366,766
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in guarantee deposits received	-	196,416
Decrease in guarantee deposits paid	(213,185)	-
Cash dividends	-	(1,662,455)
Payments for treasury shares	-	(1,033,846)
Net cash used in financing activities	(213,185)	(2,499,885)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	144,644	697,378
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,444,617	2,332,798
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	53,298,941	50,966,143
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 55,743,558	$ 53,298,941

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(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 the Republic of China. HTC and its subsidiaries (the "Company") are engaged in design, manufacture, assemble, process, and sell smart mobile devices and provide after-sales service.

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on February 6, 2015.

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

a. The amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC not yet effective.

Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC on April 3, 2014, stipulated that the Company should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") endorsed by the FSC and the related amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

New, Amended and Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note)
Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 and January 1, 2010, as appropriate
Amendment to IAS 39 "Embedded Derivatives"	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 and January 1, 2011, as appropriate
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"	July 1, 2010

(Continued)

New, Amended and Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note)
Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	July 1, 2011
New, Amended and Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note)
Amendment to IFRS 1 "Government Loans"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Transfer of Financial Assets"	July 1, 2011
IFRS 10 "Consolidated Financial Statements"	January 1, 2013
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"	January 1, 2013
Amendments to IFRS 10 and IFRS 12 and IAS 27 "Investment Entities"	January 1, 2014
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendment to IAS 1 "Presentation of Other Comprehensive Income"	July 1, 2012
Amendment to IAS 12 "Deferred Tax: Recovery of Underlying Assets"	January 1, 2012
IAS 19 (Revised 2011) "Employee Benefits"	January 1, 2013
IAS 27 (Revised 2011) "Separate Financial Statements"	January 1, 2013
IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"	January 1, 2013
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities"	January 1, 2014
IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine"	January 1, 2013

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

(Concluded)

Except for the following, whenever applied, the initial application of the above 2013 IFRSs version and the related amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Company's accounting policies:

1. IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRS 13 will be applied prospectively from January 1, 2015.

2. Amendment to IAS 1 "Presentation of Other Comprehensive Income"

The amendment to IAS 1 requires items of other comprehensive income to be grouped into those items that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

The Company will apply the above amendments in presenting the consolidated statement of comprehensive income, starting from the year 2015. Items not expected to be reclassified to profit or loss are remeasurement of the defined benefit plans and actuarial gain (loss) arising from defined benefit plans. Items expected to be reclassified to profit or loss are the exchange differences on translating foreign operations, unrealized gain (loss) on available-for-sale financial assets and cash flow hedges. However, the application of the above amendments will not result in any impact on the net profit for the year, other comprehensive income for the year (net of income tax), and total comprehensive income for the year.

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

The Company has not applied the following New IFRSs issued by the IASB but not yet endorsed by the FSC. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced their effective dates.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 4)
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28"Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2017
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.
Note 3: Prospectively applicable to transactions occurring in annual periods beginning on or after January 1, 2016.
Note 4: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application of the above New IFRSs has not had any material impact on the Company's accounting policies, except for the following:

1. IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

b. For debt instruments, if they are held within a business model whose objective is achieved by both 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 gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

Recognition and measurement of financial liabilities

As for financial liabilities, the main changes in the classification and measurement relate to the subsequent measurement of financial liabilities designated as at fair value through profit or loss. The amount of change in the fair value of such financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income and the remaining amount of change in the fair value of that liability is presented in profit or loss, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. If the above accounting treatment would create or enlarge an accounting mismatch in profit or loss, the Company presents all gains or losses on that liability in profit or loss.

Hedge accounting

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

The management anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

2. IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2017.

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

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

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company is continuingly 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 complete.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, or other regulations and IFRSs as endorsed by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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. Those assets held primarily for trading purposes;
b. Those assets to be realized within twelve months;
c. Cash and cash equivalents from the balance sheet date unless the asset is to be used for an exchange or to settle a liability, or otherwise remains restricted, at more than twelve months after the balance sheet date.

Current liabilities are:

a. Obligations incurred for trading purposes;
b. Obligations 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. An unconditional right to defer settlement of the liability 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

a. Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the HTC and the entities controlled by the HTC (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 existing subsidiaries

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 parent.

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 of the former subsidiary and any non-controlling interests at their carrying amounts at the date when control is lost. If the Company loses control of a subsidiary, 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 jointly controlled entity.

b. Subsidiary included in consolidated financial statements

The consolidated entities as of December 31, 2014 and 2013 were as follows:

			% of Ownership		
Investor	Investee	Main Businesses	December 31, 2014	December 31, 2013	Remark
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	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 service	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	-
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.	High Tech Computer (H.K.) Limited	Marketing, repair and after-sales service	-	100.00	1)
	HTC (Australia and New Zealand) Pty. Ltd.	〃	100.00	100.00	-
	HTC Philippines Corporation	〃	99.99	99.99	-
	PT. High Tech Computer Indonesia	〃	99.90	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 Innovation Limited	〃	-	100.00	2)
	HTC Communication Co., Ltd.	Manufacture and sale of smart mobile devices and after-sales service	100.00	100.00	-
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	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	-	3)
	HTC Myanmar Company Limited	〃	99.00	-	4)

(Continued)

Investor	Investee	Main Businesses	% of Ownership December 31, 2014	December 31, 2013	Remark
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	-	5)
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	-	4)
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 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 Norway AS	〃	100.00	100.00	-
	HTC RUS LLC	〃	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	-
	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	-
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	-
HTC FRANCE CORPORATION	ABAXIA SAS	International holding company, design, research and development of application software	-	100.00	6)
	HTC BLR	Design, research and development of application software	100.00	-	6)
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	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership December 31, 2014	December 31, 2013	Remark
	HTC America Innovation Inc.	〃	100.00	100.00	-
	HTC America Content Services, Inc.	Online/download media services	100.00	100.00	-
HTC America Holding Inc.	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	-
ABAXIA SAS	HTC BLR	Design, research and development of application software	-	100.00	6)

Remark:
1) High Tech Computer (H.K.) Limited was dissolved in May 2014.
2) HTC Innovation Limited was dissolved in July 2014.
3) HTC Vietnam Services One Member Limited Liability Company was incorporated in September 2014.
4) HTC Myanmar Company Limited was incorporated in September 2014.
5) HTC Communication (BJ) Tech Co. was incorporated in June 2014.
6) In September, 2014, HTC FRANCE CORPORATION mergered with ABAXIA SAS, with HTC FRANCE CORPORATION the surviving entity.

(Concluded)

c. **Subsidiaries excluded from consolidated financial statements: None**

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 (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, 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 (if any), 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, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of HTC are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in HTC losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Company losing significant influence or joint control), 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

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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is 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. The Company also recognizes the changes in the equity of associates attributable to the Company.

When the Company subscribes for its associate's newly issued shares 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. The Company records such a difference as an adjustment to investments accounted for by the equity method, with a corresponding amount credited or charged to capital surplus. If additional subscription of the new shares of associate results in a decrease in the ownership interest, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate 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 equals or exceeds the Company's interest in that associate (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), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

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 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 requirements of IAS 39 "Financial Instruments: Recognition and Measurement" are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 "Impairment of Assets" 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 it ceases to have significant influence over the associate. 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 attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate 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, profits and losses resulting from the transactions with the associate are recognized in the Company' consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

Jointly Controlled Entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. The accounting treatment for jointly controlled entities is the same as investments in associates (please refer to Note 4 "Investments in associates" section).

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes 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 is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. 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 in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and 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, 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.

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.

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 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 29.

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.

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 include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization 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 uncollectible, 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 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 29.

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 and interest rate swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the 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.

Retirement Benefit Costs
Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the consolidated balance sheets represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognized past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

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 stockholders 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 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 Stock
When the Company acquires its outstanding shares that have not been disposed or retired, treasury stock is stated at cost and shown as a deduction in stockholders' 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 stock 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 stock transactions, and the remainder, if any, debited to retained earnings. The carrying value of treasury stock is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Company's treasury stock is retired, the treasury stock 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 stock 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 stock transactions, and the remainder, if any, debited to retained earnings. The sum of the par value and premium on treasury stock in excess of its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, 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 to be 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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, 2014 and 2013, the carrying amounts of accrued marketing and advertising expenses were NT$20,168,664 thousand and NT$22,592,673 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, 2014 and 2013, the carrying amounts of allowances for doubtful debts were NT$3,054,782 thousand and NT$3,050,907 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$373,257 thousand and NT$273,046 thousand for the years ended December 31, 2014 and 2013, respectively.

d. Impairment of goodwill

Test of impairment on goodwill depends on the subjective judgment of management. The management uses subjective judgment to identify cash-generating units, allocates assets and liabilities to cash-generating units, allocates goodwill to cash-generating units, and determines recoverable amount of a cash-generating unit.

As of December 31, 2014 and 2013, the carrying amounts of goodwill were NT$0 thousand and NT$174,253 thousand, after deduction of accumulated impairment losses of NT$887,037 thousand and NT$700,531 thousand, respectively. The Company recognized an impairment loss on goodwill for NT$174,253 thousand and NT$591,306 thousand for the years ended December 31, 2014 and 2013, respectively.

e. Valuation of inventories

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

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

As of December 31, 2014 and 2013, the carrying amounts of inventories were NT$17,213,060 thousand and NT$23,599,558 thousand, respectively.

f. Realization of deferred tax assets

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

As of December 31, 2014 and 2013, the carrying amounts of deferred tax assets were NT$8,452,707 thousand and NT$8,665,235 thousand, respectively.

g. Estimates of warranty provision

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

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

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

As of December 31, 2014 and 2013, the carrying amounts of warranty provision were NT$5,208,111 thousand and NT$7,376,035 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2014	2013
Cash on hand	$ 2,295	$ 2,479
Checking accounts and demand deposits	33,266,966	28,654,223
Time deposits (with original maturities less than three months)	22,474,297	24,642,239
	$ 55,743,558	$ 53,298,941

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	December 31	
	2014	2013
Bank deposits	0.05%-0.88%	0.2%-0.85%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2014	2013
Financial assets held for trading		
Derivatives financial assets (not under hedge accounting)		
Exchange contracts	$ 262,544	$ 162,297
Financial liabilities held for trading		
Derivatives financial liabilities (not under hedge accounting)		
Exchange contracts	$ 22,424	$ -

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
December 31, 2014					
Foreign exchange contracts	Sell	CAD/USD	2015.01.07-2015.03.17	CAD	31,500
Foreign exchange contracts	Sell	EUR/USD	2015.01.07	EUR	6,000
Foreign exchange contracts	Sell	JPY/USD	2015.01.07-2015.02.25	JPY	5,288,510
Foreign exchange contracts	Sell	GBP/USD	2015.01.07-2015.03.17	GBP	30,100
Foreign exchange contracts	Buy	RMB/USD	2015.01.07	RMB	44,000
Foreign exchange contracts	Buy	USD/NTD	2015.01.12-2015.03.04	USD	267,200
Foreign exchange contracts	Buy	SGD/USD	2015.02.25-2015.03.04	SGD	88,985
December 31, 2013					
Foreign exchange contracts	Sell	EUR/USD	2014.01.02-2014.01.29	EUR	61,000
Foreign exchange contracts	Sell	JPY/USD	2014.03.31	JPY	3,755,090
Foreign exchange contracts	Sell	GBP/USD	2014.01.15-2014.01.22	GBP	12,000
Foreign exchange contracts	Sell	USD/NTD	2014.01.06-2014.02.05	USD	391,700
Foreign exchange contracts	Sell	CAD/USD	2014.01.13-2014.01.29	CAD	5,500
Foreign exchange contracts	Buy	USD/RMB	2014.01.08-2014.01.22	USD	100,600
Foreign exchange contracts	Buy	CAD/USD	2014.01.13	CAD	4,000
Foreign exchange contracts	Buy	RMB/USD	2014.01.08	RMB	11,000
Foreign exchange contracts	Buy	EUR/USD	2014.01.15-2014.01.22	EUR	18,000
Foreign exchange contracts	Buy	GBP/USD	2014.01.15-2014.01.22	GBP	2,000

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 transferred from equity to profit or loss were included in the following line items in the consolidated statements of comprehensive income:

	For the Year Ended December 31	
	2014	2013
Revenues	$ 102,057	$ 262,648
Other gains and losses	1,939	151,305
	$ 103,996	$ 413,953

9. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2014	2013
Domestic unlisted equity investment	$ 643,961	$ 698,861
Overseas unlisted equity investment	1,423,818	1,830,694
Overseas unlisted mutual funds	518,699	2,073,506
	$ 2,586,478	$ 4,603,061
Classified according to financial asset measurement categories		
Available-for-sale financial assets	$ 2,586,478	$ 4,603,061

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

The Company disposed of the investments in Primavera Capital (Cayman) Fund L.L.P. and Shanghai F-road Commercial Co., Ltd. in May 2014. Furthermore, the Company made a partial disposal of shares of KKBOX Inc. in August 2014. These transactions resulted in the recognition of a gain in profit or loss, calculated as follows:

Proceeds of disposal	$ 2,358,135
Less: Carrying amount of investment on the date of disposal	(2,200,140)
Gain recognized	$ 157,995

In 2014, the Company determined that the recoverable amount of financial assets measured at cost was less than its carrying amount and thus recognized an impairment loss of $373,257 thousand.

10. OTHER CURRENT FINANCIAL ASSETS

	December 31	
	2014	2013
Time deposits with original maturities more than three months	$ 334,954	$ 411,982
Trust assets for employee benefit	-	2,359,041
	$ 334,954	$ 2,771,023

To protect the rights and interests of its employees, the Company deposited unpaid employee bonus in a new trust account in September 2012. The Company had paid the employee bonus and close the trust account in August 2014.

For details of pledged other current financial assets, please refer to Note 31.

11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2014	2013
Trade receivables		
Trade receivables	$ 32,194,141	$ 26,420,770
Trade receivables - related parties	925	1,309
Less: Allowances for impairment loss	(3,054,782)	(3,050,907)
	$ 29,140,284	$ 23,371,172
Other receivables		
Receivables from disposal of investments	$ 1,251,073	$ 1,182,393
VAT refund receivables	246,900	355,442
Interest receivables	102,771	10,878
Others	327,005	1,771,333
	$ 1,927,749	$ 3,320,046
Current - other receivables	$ 584,936	$ 2,137,653
Non-current - other receivables	1,342,813	1,182,393
	$ 1,927,749	$ 3,320,046

Trade Receivables

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

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

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

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

Age of impaired trade receivables

	December 31	
	2014	2013
1-90 days	$ 2,946,423	$ 3,714,226
91-180 days	-	1,468,049
Over 181 days	-	803,422
	$ 2,946,423	$ 5,985,697

The above was shown after deducting the allowance for impairment loss and analyzed on the basis of the past due date.

Movement in the allowance for impairment loss on trade receivables were as follow:

Movement in the allowances for impairment loss

	For the Year Ended December 31	
	2014	2013
Balance, beginning of the year	$ 3,050,907	$ 2,086,085
Add: Impairment losses recognized on receivables	3,875	1,010,405
Less: Amounts written off as uncollectible	-	(13,943)
Disposal of subsidiary	-	(32,453)
Translation adjustment	-	813
Balance, end of the year	$ 3,054,782	$ 3,050,907

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. For details of disposal of subsidiaries, please refer to Note 27.

Others were primarily prepayments on behalf of vendors or customers, grants from suppliers and withholding income tax of employees' bonuses.

12. INVENTORIES

	December 31	
	2014	2013
Finished goods	$ 2,925,203	$ 3,487,921
Work-in-process	686,398	521,423
Semi-finished goods	3,692,029	8,244,216
Raw materials	9,491,854	11,074,773
Inventory in transit	417,576	271,225
	$ 17,213,060	$ 23,599,558

The losses on inventories decline amounting to NT$521,692 thousand and NT$417,166 thousand were recognized as cost of revenues for the years ended December 31, 2014 and 2013, respectively.

13. PREPAYMENTS

	December 31	
	2014	2013
Royalty	$ 12,068,674	$ 12,007,756
Net input VAT	1,848,355	1,918,462
Prepayments to suppliers	1,577,566	2,492,197
Software and hardware maintenance	205,415	139,958
Service	203,186	113,661
Prepaid equipment	168,983	194,200
Land use right	139,502	138,376
Molding expenses	29,151	304,411
Others	303,121	234,123
	$ 16,543,953	$ 17,543,144
Current	$ 6,626,106	$ 5,803,744
Non-current	9,917,847	11,739,400
	$ 16,543,953	$ 17,543,144

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 34.

Prepayments to suppliers were primarily for discount purposes and were classified as current or non-current in accordance with their nature.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2014	2013
Investment in associates	$ 15,836	$-
Investment in jointly controlled entities	218,825	227,504
	$ 234,661	$ 227,504

Investments in Associates

	December 31	
	2014	2013
Unlisted equity investments		
East West Artist	$ 15,836	$-
SYNCTV Corporation	-	-
	$ 15,836	$-

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

	December 31	
	2014	2013
East West Artist	12.50%	-
SYNCTV Corporation	-	20.00%

In September 2011, the Company acquired 20% equity interest in SYNCTV Corporation for US$2,500 thousand and accounted for this investment by the equity method. In December 2012, the Company determined that the recoverable amount of this investment was less than its carrying amount and thus recognized an impairment loss of NT$56,687 thousand. In April 2014, the Company transferred its interest in SYNCTV Corporation to the parent company of such investee, Intertrust Technologies Corporation, without consideration.

In October 2011, the Company acquired 50.14% equity interest in Beats Electronics, LLC for US$300,000 thousand. In July 2012, the Company sold back 25% of Beats Electronics, LLC shares to the founding members of Beats Electronics, LLC for US$150,000 thousand. In October 2013, the Company sold its remaining interest in Beats Electronics, LLC to Beats Electronics, LLC for US$265,000 thousand. This transaction resulted in the recognition of a gain in profit or loss, calculated as follows:

Proceeds of disposal	$ 7,883,326
Less: Carrying amount of investment at the date of disposal	(5,285,537)
Add: Share of other comprehensive income of the associate	39,884
Gain recognized	$ 2,637,673

In December 2014, the Company acquired 12.50% equity interest in East West Artist for US$500 thousand. Management consider that the Company is able to exercise significant influence over East West Artist and accounted for this investment by the equity method.

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. Management believes there is no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income, as the financial statement have not been audited.

Investments in Jointly Controlled Entity

	December 31	
	2014	2013
Unlisted equity investments		
Huada Digital Corporation	$ 218,825	$ 227,504

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

	December 31	
Company Name	2014	2013
Huada Digital Corporation	50.00%	50.00%

The Company set up a subsidiary Huada, whose main business is software services, in December 2009. In October 2011, Chunghwa Telecom Co., Ltd. invested in Huada. In March 2012, Huada held a stockholders' 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 this investment by the equity method.

Investments in jointly controlled entity 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 for the year ended December 31, 2014 and have been audited for the year ended December 31, 2013. Management believes there is no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income, as the financial statements have not been audited.

15. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2014	2013
Carrying amounts		
Land	$ 7,622,683	$ 7,623,287
Buildings	10,364,729	10,507,548
Property in construction	1,089	145
Machinery and equipment	4,437,725	5,761,926
Other equipment	1,009,330	1,668,493
	$ 23,435,556	$ 25,561,399

Movement of property, plant and equipment for the years ended December 31, 2014 and 2013 were as follows:

	2014					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$ 7,623,287	$ 12,229,591	$ 145	$ 14,480,912	$ 3,564,884	$ 37,898,819
Additions	-	223,122	1,053	570,963	87,266	882,404
Disposal	-	-	-	(274)	(1,039,424)	(1,039,698)
Reclassification	-	-	(147)	-	147	-
Translation adjustment	(604)	55,602	38	129,938	44,117	229,091
Balance, end of the year	7,622,683	12,508,315	1,089	15,181,539	2,656,990	37,970,616
Accumulated depreciation						
Balance, beginning of the year	-	1,722,043	-	8,718,986	1,896,391	12,337,420
Depreciation expenses	-	416,707	-	1,940,537	595,648	2,952,892
Disposal	-	-	-	(192)	(869,996)	(870,188)
Translation adjustment	-	4,836	-	84,483	25,617	114,936
Balance, end of the year	-	2,143,586	-	10,743,814	1,647,660	14,535,060
Net book value, end of the year	$ 7,622,683	$ 10,364,729	$ 1,089	$ 4,437,725	$ 1,009,330	$ 23,435,556

	2013					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$ 7,615,546	$ 11,851,900	$-	$ 13,310,647	$ 2,787,808	$ 35,565,901
Additions	-	252,735	6,683	1,178,694	797,615	2,235,727
Disposal	-	(5,995)	-	(138,393)	(102,601)	(246,989)
Reclassification	-	5,275	(4,958)	(88,006)	87,689	-
Transfer to expense	-	-	(1,581)	-	(1,436)	(3,017)
Translation adjustment	7,741	125,676	1	217,970	87,336	438,724
Disposal of subsidiaries	-	-	-	-	(91,527)	(91,527)
Balance, end of the year	7,623,287	12,229,591	145	14,480,912	3,564,884	37,898,819

(Continued)

	2013					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Accumulated depreciation						
Balance, beginning of the year	$-	$1,309,881	$-	$6,982,924	$1,282,330	$9,575,135
Depreciation expenses	-	399,036	-	1,824,620	693,043	2,916,699
Disposal	-	(5,995)	-	(138,219)	(100,108)	(244,322)
Reclassification	-	11,434	-	(35,096)	23,662	-
Transfer to expense	-	-	-	-	(22)	(22)
Translation adjustment	-	7,687	-	84,757	36,720	129,164
Disposal of subsidiaries	-	-	-	-	(39,234)	(39,234)
Balance, end of the year	-	1,722,043	-	8,718,986	1,896,391	12,337,420
Net book value, end of the year	$ 7,623,287	$ 10,507,548	$ 145	$ 5,761,926	$ 1,668,493	$ 25,561,399

(Concluded)

The above items of property, plant and equipment were depreciated on a straight-line basis at the following rates per annum:

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 were depreciated over their estimated useful lives of 40 to 50 years, 20 years and 5 to 10 years, respectively.

There were no interests capitalized for the years ended December 31, 2014 and 2013.

16. INTANGIBLE ASSETS

	December 31	
	2014	2013
Carrying amounts		
Patents	$ 6,418,735	$ 7,668,901
Goodwill	-	174,253
Other intangible assets	790,556	820,912
	$ 7,209,291	$ 8,664,066

Movements of intangible assets for the years ended December 31, 2014 and 2013 were as follows:

	2014			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of the year	$ 11,496,490	$ 874,784	$ 1,689,432	$ 14,060,706
Additions	-	-	244,588	244,588
Translation adjustment	521,550	12,253	17,304	551,107
Balance, end of the year	12,018,040	887,037	1,951,324	14,856,401

(Continued)

	2014			
	Patents	Goodwill	Other Intangible Assets	Total
Accumulated amortization				
Balance, beginning of the year	$ 3,716,504	$ -	$ 705,679	$ 4,422,183
Amortization expenses	1,586,745	-	282,072	1,868,817
Translation adjustment	184,971	-	719	185,690
Balance, end of the year	5,488,220	-	988,470	6,476,690
Accumulated impairment				
Balance, beginning of the year	111,085	700,531	162,841	974,457
Impairment losses	-	174,253	-	174,253
Translation adjustment	-	12,253	9,457	21,710
Balance, end of the year	111,085	887,037	172,298	1,170,420
Net book value, end of the year	$ 6,418,735	$ -	$ 790,556	$ 7,209,291

(Concluded)

	2013			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of the year	$ 11,239,554	$ 1,681,561	$ 1,603,108	$ 14,524,223
Additions	22,213	-	200,795	223,008
Acquisition	-	-	509,710	509,710
Transfer from prepayment	(6,778)	-	(24,709)	(31,487)
Disposal	-	(67,690)	(39,966)	(107,656)
Adjustment in acquisition of a subsidiary	-	(785,338)	(608,519)	(1,393,857)
Disposal of subsidiaries	241,501	46,251	49,013	336,765
Translation adjustment				
Balance, end of the year	11,496,490	874,784	1,689,432	14,060,706
Accumulated amortization				
Balance, beginning of the year	2,058,880	-	634,978	2,693,858
Amortization expenses	1,618,246	-	350,246	1,968,492
Disposal	-	-	(22,372)	(22,372)
Disposal of subsidiaries	-	-	(283,487)	(283,487)
Translation adjustment	39,378	-	26,314	65,692
Balance, end of the year	3,716,504	-	705,679	4,422,183
Accumulated impairment				
Balance, beginning of the year	-	147,195	-	147,195
Impairment losses	111,085	591,306	161,961	864,352
Disposal of subsidiaries	-	(45,017)	-	(45,017)
Translation adjustment	-	7,047	880	7,927
Balance, end of the year	111,085	700,531	162,841	974,457
Net book value, end of the year	$ 7,668,901	$ 174,253	$ 820,912	$ 8,664,066

The Company owns patents of graphics technologies. As of December 31, 2014 and 2013, the carrying amounts of such patents were NT$5,839,617 thousand and NT$6,641,606 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

17. NOTE AND TRADE PAYABLES

	December 31	
	2014	2013
Note payables	$ 1,541	$ 1,355
Trade payables	43,801,802	46,266,193
Trade payables - related parties	-	8,303
	$ 43,803,343	$ 46,275,851

The average term of payment is four months. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

18. OTHER LIABILITIES

	December 31	
	2014	2013
Other payables		
Accrued expenses	$ 31,937,918	$ 36,999,785
Payables for purchase of equipment	300,027	815,774
Others	-	217,440
	$ 32,237,945	$ 38,032,999
Other current liabilities		
Advance receipts	$ 773,813	$ 529,470
Agency receipts	205,932	259,529
Others	163,389	167,128
	$ 1,143,134	$ 956,127

Accrued Expenses

	December 31	
	2014	2013
Marketing	$ 20,168,664	$ 22,592,673
Salaries and bonuses	4,584,604	5,757,389
Materials and molding expenses	2,784,237	1,650,934
Services	1,469,689	1,780,205
Import, export and freight	728,217	647,588
Bonus to employees	654,620	3,278,053
Repairs, maintenance and sundry purchase	239,048	237,463
Others	1,308,839	1,055,480
	$ 31,937,918	$ 36,999,785

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

19. PROVISIONS

	December 31	
	2014	2013
Warranty provision	$ 5,208,111	$ 7,376,035
Provisions for contingent loss on purchase orders	633,068	832,850
	$ 5,841,179	$ 8,208,885

Movement of provisions for the years ended December 31, 2014 and 2013 were as follows:

	2014		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$ 7,376,035	$ 832,850	$ 8,208,885
Provisions recognized (reversed)	17,213,295	(33,368)	17,179,927
Amount utilized during the year	(19,506,904)	(166,414)	(19,673,318)
Translation adjustment	125,685	-	125,685
Balance, end of the year	$ 5,208,111	$ 633,068	$ 5,841,179

	2013		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$ 8,058,509	$ 823,005	$ 8,881,514
Provisions recognized	13,945,001	359,350	14,304,351
Amount utilized during the year	(14,789,263)	(349,505)	(15,138,768)
Translation adjustment	161,788	-	161,788
Balance, end of the year	$ 7,376,035	$ 832,850	$ 8,208,885

The Company provides warranty service for its customers 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.

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, 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 contribution retirement 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$787,960 thousand and NT$786,658 thousand, representing the contributions payable to these plans by the Company at the rates specified in the plans for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the amounts of contributions payable were NT$98,605 thousand and NT$109,323 thousand, respectively, the amounts were paid subsequent to the end of the reporting period.

Defined Benefit Plans

Based on the defined benefit plan under the Labor Standards Law ("LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. HTC and CGC contributed amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in Bank of Taiwan in the committee's name.

The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund the return generated by employees' pension contribution should not be below the interest rate for a 2-year time deposit with local banks.

The actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out by qualifying actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2014	2013
Discount rates	1.625%- 2.000%	1.625%- 1.875%
Expected return on plan assets	2.000%	2.000%
Expected rates of salary increase	2.250%- 4.000%	2.250%- 4.000%

Amounts recognized in profit or loss in respect of these defined benefit plans were as follows:

	For the Year Ended December 31	
	2014	2013
Current service cost	$ 9,864	$ 4,599
Interest cost	7,744	6,408
Expected return on plan assets	(11,017)	(9,885)
	$ 6,591	$ 1,122
An analysis by function		
Operating cost	$ 1,518	$ 301
Selling and marketing	563	89
General and administrative	731	126
Research and development	3,779	606
	$ 6,591	$ 1,122

The amounts of actuarial losses recognized in other comprehensive income were NT$33,346 thousand and NT$17,106 thousand for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the amounts of actuarial losses recognized in accumulated other comprehensive income were NT$55,834 thousand and NT$22,488 thousand, respectively.

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	
	2014	2013
Present value of funded defined benefit obligation	$(443,642)	$ (413,220)
Fair value of plan assets	552,780	538,935
Defined benefit assets	$ 109,138	$ 125,715

Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2014	2013
Opening defined benefit obligation	$ 413,220	$ 394,681
Current service cost	9,864	4,599
Interest cost	7,744	6,408
Actuarial losses	34,762	13,851
Benefits paid	(21,948)	(6,319)
Closing defined benefit obligation	$ 443,642	$ 413,220

Movements in the present value of the plan assets in the current year were as follows:

	For the Year Ended December 31	
	2014	2013
Opening fair value of plan assets	$ 538,935	$ 513,954
Expected return on plan assets	11,017	9,885
Actuarial losses	1,416	(3,255)
Contributions from the employer	23,360	24,670
Benefits paid	(21,948)	(6,319)
Closing fair value of plan assets	$ 552,780	$ 538,935

The major categories of plan assets at the end of the reporting period for each category were disclosed based on the information announced by Bureau of Labor Funds, Ministry of Labor:

	December 31	
	2014	2013
Equity instruments	49.69%	44.77%
Debt instruments	47.48%	54.44%
Others	2.83%	0.79%
	100.00%	100.00%

The Company expects to make a contribution of NT$23,797 thousand to the defined benefit pension plan within one year from December 31, 2014.

21. EQUITY

Share Capital

a. Common stock

	December 31	
	2014	2013
Authorized shares (in thousands of shares)	1,000,000	1,000,000
Authorized capital	$ 10,000,000	$ 10,000,000
Issued and fully paid shares (in thousands of shares)	834,952	842,351
Issued capital	$ 8,349,521	$ 8,423,505

In September and November 2013, the Company retired 1,912 thousand treasury shares amounting to NT$19,126 thousand and 7,789 thousand treasury shares amounting to NT$77,890 thousand, respectively. Also, in February and October 2014, the Company retired 1,999 thousand treasury shares amounting to NT$19,984 thousand and 10,000 thousand treasury shares amounting to NT$100,000 thousand, respectively. In November 2014, the Company issued 4,600 thousand restricted shares for employees amounting to NT$46,000 thousand. As a result, the amount of the Company's outstanding common stock as of December 31, 2014 decreased to NT$8,349,521 thousand, divided into 834,952 thousand common shares at NT$10 par value. Every common stock carries one vote per share and a right to dividends.

50,000 thousand shares of the Company's shares authorized were reserved for the issuance of employee share options.

b. Global depositary receipts

In November 2003, HTC issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, HTC's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common 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 common shares. As of December 31, 2014, there were 8,328.6 thousand units of GDRs redeemed, representing 33,314.3 thousand common shares, and the outstanding GDRs represented 2,746.2 thousand common shares or 0.33% of HTC's outstanding common shares.

Capital Surplus

	December 31	
	2014	2013
Arising from issuance of common shares	$ 14,432,437	$ 14,640,983
Arising from treasury share transactions	-	631,791
Arising from merger	23,801	24,145
Arising from employee share options	250,470	26,742
Arising from expired stock options	36,124	36,646
Arising from employee restricted shares	397,855	-
	$ 15,140,687	$ 15,360,307

The capital surplus arising from shares issued in excess of par (including share premium from issuance of common shares, treasury share transactions, merger 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 September and November 2013, the retirement of treasury shares caused decreases of NT$168,625 thousand in additional paid-in capital - issuance of shares in excess of par, NT$9,727 thousand in capital surplus - treasury shares, NT$278 thousand in capital surplus - merger and NT$422 thousand in capital surplus - expired stock options. The difference the carrying value of treasury shares retired in excess of the sum of its par value and premium from issuance of common share was firstly offset against capital surplus - treasury shares by NT$1,088,940 thousand, and the rest offset against unappropriated earnings amounting to NT$814,170 thousand.

In February and October 2014, the retirement of treasury shares caused decreases of NT$208,546 thousand in additional paid-in capital - issuance of shares in excess of par, NT$1,499 thousand in capital surplus - treasury shares, NT$344 thousand in capital surplus - merger and NT$522 thousand in capital surplus - expired stock options. The difference the carrying value of treasury shares retired in excess of the sum of its par value and premium from issuance of common share was firstly offset against capital surplus - treasury shares by NT$630,292 thousand, and the rest offset against unappropriated earnings amounting to NT$8,208,915 thousand.

For details of capital surplus - employee share options and employee restricted shares, please refer to Note 26.

Retained Earnings and Dividend Policy

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

a. To pay taxes.
b. To cover accumulated losses, if any.
c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of HTC's authorized capital.
d. To recognize or reverse special reserve return earnings.
e. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above items (a) to (d).
f. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above items (a) to (d), or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include the affiliates' employees who meet specific requirements prescribed by the board of directors.
g. For any remainder, the board of directors should propose allocation ratios based on the dividend policy set forth in HTC's Articles and propose them at the stockholders' meeting.

As part of a high-technology industry and as a growing enterprise, HTC considers its operating environment, industry developments, and long-term interests of stockholders as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in 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.

The employee bonus for the year ended December 31, 2014 should be appropriated at 5% of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

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 deficit and the legal reserve has exceeded 25% of the Company's capital, the excess may be transferred to capital or distributed in cash.

The loss off-setting for 2013 and appropriations of 2012 earnings had been approved in the shareholders' meetings on June 19, 2014 and June 21, 2013, respectively. The appropriations and dividends per share were as follows:

	(The Loss Off-setting) Appropriation of Earnings		Dividends Per Share (NT$)	
	For 2013	For 2012	For 2013	For 2012
Legal reserve	$-	$ 1,678,096	$-	$-
Special reserve (reversal)	(854,138)	854,138	-	-
Cash dividends	-	1,662,455	-	2
Stock dividends	-	-	-	-

No employee bonus was estimated as the Company reported net loss for the year ended December 31, 2013. The bonus to employees for 2012 was approved in the shareholders' meetings on June 21, 2013. The amounts of bonus were as follows:

		Amounts Approved in Shareholders' Meetings	Amounts Recognized in Financial Statements
For 2012	Cash	$ 976,327	
	Stock	-	
		$ 976,327	$ 976,327

The approved amounts of bonus to employees were the same as the accrual amounts recognized in the financial statements for 2012.

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	
	2014	2013
Exchange differences on translating foreign operations	$ 1,462,855	$ 559,719
Unrealized losses on available-for-sale financial assets	(2,167)	(2,021)
Unearned employee benefit	(398,570)	-
	$ 1,062,118	$ 557,698

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 19, 2014, the shareholders approved a restricted stock plan for employees. Refer to Note 26 for the information of restricted shares issued.

	For the Year Ended December 31	
	2014	2013
Balance, beginning of the year	$ -	$ -
Issuance of shares	(443,855)	-
Share-based payment expenses recognized	45,285	-
Balance, end of the year	$ (398,570)	$ -

Treasury Shares

On August 2, 2013, the Company's board of directors passed a resolution to buy back 15,000 thousand Company shares from the open market. The repurchase period was between August 5, 2013 and October 4, 2013, and the repurchase price ranged from NT$140 to NT$290 per share. If the Company's share price is lower than this price range, the Company may continue to buy back its shares. The Company had bought back 7,789 thousand shares for NT$1,033,846 thousand during the repurchase period, which retired by the Company's board of directors on November 5, 2013.

The Company had repurchased company shares from the open market for transferring to employees and some of them had not been transferred before the expiry time. The Board of Directors approved the retirement of 1,999 thousand, 10,000 thousand and 1,912 thousand treasury stocks in February and October 2014 and September 2013, respectively. The related information on the treasury stock transactions was as follows:

(In Thousands of Shares)

Reason to Reacquire	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
For 2014				
To transfer shares to the Company's employees	18,913	-	11,999	6,914
For 2013				
To transfer shares to the Company's employees	20,825	-	1,912	18,913
To maintain the Company's credibility and stockholders' interest	-	7,789	7,789	-
	20,825	7,789	9,701	18,913

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.

22. REVENUE

	For the Year Ended December 31	
	2014	2013
Sale of goods	$ 184,929,230	$ 200,208,038
Other operating income	2,981,970	3,194,610
	$ 187,911,200	$ 203,402,648

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT$102,057 thousand and NT$262,648 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 2014 and 2013, respectively.

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

a. Other income

	For the Year Ended December 31	
	2014	2013
Interest income		
Cash in bank	$ 307,005	$ 342,422
Other receivables	96,150	-
Held-to-maturity financial assets	-	794
Loan	-	211,139
	403,155	554,355
Dividend income	26,381	16,282
Others	404,588	594,311
	$ 834,124	$ 1,164,948

b. Other gains and losses

	For the Year Ended December 31	
	2014	2013
Losses on disposal of property, plant and equipment	$ (153,493)	$ (58)
Gain on disposal of intangible assets	-	108,265
Gains on sale of investments	157,995	29,735
Gain on disposal of investments accounted for using equity method	-	2,637,673
Gain on disposal of subsidiaries	-	175,435
Net foreign exchange gains	855,412	109,960
Net gains arising on financial assets and liabilities classified as held for trading	240,120	162,297
Ineffective portion of cash flow hedge	1,939	151,305
Impairment losses	(547,510)	(864,352)
Other losses	(48,269)	(88,994)
	$ 506,194	$ 2,421,266

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 losses on financial assets

	For the Year Ended December 31	
	2014	2013
Trade receivables (included in operating expense)	$ 3,875	$ 1,010,405
Financial assets measured at cost (included in other gains and losses)	373,257	-
	$ 377,132	$ 1,010,405

d. Depreciation and amortization

	For the Year Ended December 31	
	2014	2013
Property, plant and equipment	$ 2,952,892	$ 2,916,699
Intangible assets	1,868,817	1,968,492
	$ 4,821,709	$ 4,885,191
Classification of depreciation - by function		
Cost of revenues	$ 1,610,472	$ 1,538,825
Operating expenses	1,342,420	1,377,874
	$ 2,952,892	$ 2,916,699
Classification of amortization - by function		
Cost of revenues	$ 19,788	$ 6,841
Operating expenses	1,849,029	1,961,651
	$ 1,868,817	$ 1,968,492

e. Employee benefits expense

	For the Year Ended December 31	
	2014	2013
Post-employment benefits (Note 20)		
Defined contribution plans	$ 787,960	$ 786,658
Defined benefit plans	6,591	1,122
	794,551	787,780
Share-based payments	269,013	26,742
Equity-settled share-based payments		
Other employee benefits	16,422,150	17,517,784
Total employee benefits expense	$ 17,485,714	$ 18,332,306
Classification - by function		
Cost of revenues	$ 5,771,740	$ 6,539,452
Operating expenses	11,713,974	11,792,854
	$ 17,485,714	$ 18,332,306

f. Impairment losses on non-financial assets

	For the Year Ended December 31	
	2014	2013
Inventories (included in cost of revenues)	$ 521,692	$ 417,166
Intangible assets (including goodwill) (included in other gains and losses)	174,253	864,352
	$ 695,945	$ 1,281,518

g. Items that were reclassified to other comprehensive income

	For the Year Ended December 31	
	2014	2013
Exchange differences on translating foreign operations		
Exchange differences arising during the year	$ 903,136	$ 1,680,660
Reclassification adjustments relating to foreign operations disposed of in the year	-	(31,248)
	$ 903,136	$ 1,649,412
Available-for-sale financial assets		
Net fair value (loss) gain on available-for-sale financial assets during the year	$(146)	$ 42
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	-	(11,780)
	$(146)	$ (11,738)
Cash flow hedges		
Reclassification adjustments for amounts recognized in profit or loss	$ -	$ (194,052)

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2014	2013
Current tax		
In respect of the current period	$ 219,434	$ 1,432,715
In respect of the prior periods	(95,001)	85,656
	124,433	1,518,371
Deferred tax		
In respect of the current period	375,947	(390,230)
Income tax recognized in profit or loss	$ 500,380	$ 1,128,141

On April 9, 2014, the Ministry of Finance promulgated the amendments to the Assessment Rules Governing Income Tax Returns of Profit-Seeking Enterprises, the Tax Ruling No. 10304540780, and the amendments apply to the filing of income tax returns for 2013 onwards. The applications of such amendments were not to have significant effect on current and deferred tax assets and liabilities for the Company.

The income tax for the years ended December 31, 2014 and 2013 can be reconciled to the accounting profit (loss) as follows:

	For the Year Ended December 31	
	2014	2013
Profit (loss) before income tax	$ 1,983,426	$ (195,644)
Income tax calculated at 17%	337,182	-
Effect of expenses that were not deductible in determining taxable profit	74,289	210,430
Effect of temporary differences	(352,494)	(152,462)
Effect of investment tax credits	-	(1,126,249)
Effect of loss carryforward	(4,803)	(2,298)
Effect of income that is exempt from taxation	(61,983)	(501)
Additional 10% income tax on unappropriated earnings	-	1,126,249
Effect of different tax rates of subsidiaries operating in other jurisdictions	603,190	987,316
Adjustments for prior years' tax	(95,001)	85,656
Income tax recognized in profit or loss	$ 500,380	$ 1,128,141

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2014	2013
Deferred tax		
Recognized in current year		
Actuarial gain and loss (tax benefit)	$(4,010)	$ (1,794)

c. Current tax assets and liabilities

	December 31	
	2014	2013
Current tax assets		
Tax refund receivable	$ 274,321	$ 238,085
Current tax liabilities		
Income tax payable	$ 210,714	$ 1,040,128

d. Deferred tax balances

The movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2014 and 2013 were as follows:

	2014				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Translation Adjustment	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized royalties	$ 2,429,433	$(816,100)	$ -	$ -	$ 1,613,333
Unrealized marketing expenses	2,338,903	(419,257)	-	1,018	1,920,664
Unrealized warranty expense	712,434	(108,938)	-	27,472	630,968
Allowance for loss on decline in value of inventory	552,036	(77,656)	-	9,177	483,557
Unrealized profit	302,267	(92,314)	-	-	209,953
Unrealized salary and welfare	374,925	(174,811)	-	23,058	223,172
Unrealized contingent losses on purchase orders	99,945	(23,974)	-	-	75,971
Others	405,674	37,861	-	45,054	488,589
Loss carryforwards	1,449,618	1,360,072	-	(3,190)	2,806,500
	$ 8,665,235	$ (315,117)	$ -	$ 102,589	$ 8,452,707
Deferred tax liabilities					
Temporary differences					
Unrealized gain on investments	$ 79,450	$ -	$ -	$ -	$ 79,450
Financial assets at FVTPL	19,476	9,339	-	-	28,815
Defined benefit plans	15,098	2,001	(4,010)	-	13,089
Others	37,098	49,490	-	(5,010)	81,578
	$ 151,122	$ 60,830	$ (4,010)	$ (5,010)	$ 202,932

	2013					
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Disposal of Subsidiaries	Translation Adjustment	Closing Balance
Deferred tax assets						
Temporary differences						
Unrealized royalties	$ 2,985,884	$ (556,451)	$ -	$ -	$ -	$ 2,429,433
Unrealized marketing expenses	2,336,469	(57,711)	-	-	60,145	2,338,903
Unrealized warranty expense	859,853	(162,739)	-	-	15,320	712,434
Allowance for loss on decline in value of inventory	756,462	(220,526)	-	-	16,100	552,036
Unrealized profit	365,524	(63,257)	-	-	-	302,267
Unrealized salary and welfare	357,322	8,236	-	(1,416)	10,783	374,925
Unrealized contingent losses on purchase orders	70,779	29,166	-	-	-	99,945
Others	294,018	158,624	(915)	(3,295)	(42,758)	405,674
Loss carryforwards	484	1,449,272	-	(508)	370	1,449,618
Investment credits	663,047	(663,047)	-	-	-	-
	$ 8,689,842	$ (78,433)	$ (915)	$ (5,219)	$ 59,960	$ 8,665,235
Deferred tax liabilities						
Temporary differences						
Unrealized gain on investments	$ 470,743	$ (407,873)	$ -	$ -	$ 16,580	$ 79,450
Financial assets at FVTPL	2,961	16,515	-	-	-	19,476
Defined benefit plans	35,034	(17,227)	(2,709)	-	-	15,098
Others	139,198	(60,078)	-	(2,622)	(39,400)	37,098
	$ 647,936	$ (468,663)	$ (2,709)	$ (2,622)	$ (22,820)	$ 151,122

e. Items for which no deferred tax assets have been recognized

	December 31	
	2014	2013
Loss carryforward	$ 1,041,574	$ 553,280
Deductible temporary differences	$ 3,470,768	$ 4,587,454

f. Information about unused loss carry-forward and tax-exemption

Loss carryforwards as of December 31, 2014 comprised of:

Remaining Carrying	Expiry Year
$ 107,539	2015
2,447,622	2018
605,689	2019
7,662,140	2023
10,525,277	2024
970	2027
17,270	2028
23,485	2029
135,366	2030
60,908	2031
30,905	2032
$ 21,617,171	

Under the Statute for Upgrading Industries, the Company was granted exemption from corporate income tax for 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 liabilities have not been recognized

As of December 31, 2014 and 2013, the taxable temporary differences associated with investment in subsidiaries and branch for which no deferred tax liabilities have been recognized were NT$897,465 thousand and NT$559,255 thousand, respectively.

h. Integrated income tax

The imputation credit account ("ICA") information as of December 31, 2014 and 2013, were as follows:

	December 31	
	2014	2013
Unappropriated earnings generated on and after January 1, 1998	$ 41,381,753	$ 47,282,820
Balance of ICA	$ 8,164,935	$ 6,573,169

	For the Year Ended December 31	
	2014 (Expected)	2013 (Actual)
Creditable ratio for distribution of earning	19.73%	-

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

i. Income tax assessments

Except 2011, HTC's income tax returns through 2012 had been assessed by the tax authorities. However, HTC disagreed with the tax authorities' assessment on its returns for unappropriated earnings of 2009 and applied for the administrative remedial. Nevertheless, under the conservatism guideline, HTC adjusted its income tax for the tax shortfall stated in the tax assessment notices.

The income tax returns of Communication Global Certification Inc., HTC Investment Corporation, HTC I Investment Corporation and Yoda Co., Ltd. for the years through 2012 have been examined and approved by the tax authorities.

25. EARNINGS (LOSS) PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2014	2013
Basic earnings (loss) per share	$ 1.80	$ (1.60)
Diluted earnings (loss) per share	$ 1.80	$ (1.60)

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

Net Profit (Loss) for the Years

	For the Year Ended December 31	
	2014	2013
Profit (loss) for the year attributable to owners of the parent	$ 1,483,046	$ (1,323,785)

Shares

Unit: In Thousands of Shares

	For the Year Ended December 31	
	2014	2013
Weighted average number of ordinary shares used in computation of basic earnings (loss) per share	824,194	829,082
Effect of dilutive potential ordinary shares:		
Bonus issue to employees	622	-
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	824,816	829,082

If the Company was able to settle the bonuses paid to employees by cash or shares, the Company presumed that the entire amount of the bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

26. 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.

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

Information on employee share options was as follows:

	For the Year Ended December 31			
	2014		2013	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	15,000	$ 149	-	$ -
Options granted	19,000	134.5	15,000	149
Options forfeited	(2,092)		-	
Balance at December 31	31,908		15,000	
Options exercisable, end of the year	-		-	
Weighted-average fair value of options granted per unit (NT$)	$ 31.231		$ 43.603	

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

	December 31	
	2014	2013
Range of exercise price (NT$)	$ 134.5-149	$ 149
Weighted-average remaining contractual life (years)	8.22 years	6.8 years

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

	October 2014	November 2013
Grant-date share price (NT$)	$ 134.5	$ 149
Exercise price (NT$)	134.5	149
Expected volatility	33.46%	45.83%
Expected life (years)	10 years	7 years
Expected dividend yield	4.40%	5.00%
Risk-free interest rate	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, the shareholders approved a restricted stock plan for employees with a total amount of $50,000 thousand, consisting of 5,000 thousand shares. On October 31, 2014, HTC's board of directors passed a resolution to issue 4,600 thousand shares.

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

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

If an employee fails to meet the vesting conditions, HTC will recall or buy back and cancel the restricted shares.

Information about outstanding employee restricted shares as of December 31, 2014 was as follows:

Grant-date	November 2, 2014
Grant-date fair value (NT$)	$ 134.5
Exercise price	Gratuitous
Numbers of shares (thousand shares)	4,600
Vesting period (years)	1-3 years

Compensation Cost of Share-based Payment Arrangements

Compensation cost of share-based payment arrangement recognized were NT$269,013 thousand and NT$26,742 thousand for the years ended December 31, 2014 and 2013, respectively.

27. DISPOSAL OF SUBSIDIARIES

In September 2013, the Company sold its 100% stake in Saffron Media Group Ltd. for US$47,000 thousand to CDMG Holdings UK Limited. Saffron Media Group Ltd is a provider of digital multimedia delivery services.

Consideration Received

	Saffron Media Group Ltd.
Cash and cash equivalents	$ 223,970
Deferred sales proceeds	1,179,573
	$ 1,403,543

At the completion of sales of Saffron Media Group Ltd., CDMG Holdings UK Limited paid HTC US$7,500 thousand in cash plus a purchaser note (the "Note") with five years term and 6% interest rate per annum, which was classified as "long-term receivable", in the amount of US$39,500 thousand. The Note and interest payment will be made on due date. The Note and accrued interest were secured by pledge of the shares obtained by the buying party in this transaction.

Analysis of Asset and Liabilities Over Which Control Was Lost

	Saffron Media Group Ltd.
Current assets	
Cash and cash equivalents	$ 79,704
Other current assets	105,670
Non-current assets	1,120,421
Current liabilities	(86,324)
Net assets disposed of	$ 1,219,471

Gain on Disposal of Subsidiary

	Saffron Media Group Ltd.
Consideration received	$ 1,403,543
Net assets disposed of	(1,219,471)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary	(8,636)
Gain on disposal	$ 175,436

Net Cash Inflow on Disposal of Subsidiary

	For the Year Ended December 31	
	2014	2013
Consideration received in cash and cash equivalents	$ -	$ 223,970
Add: Collection of notes receivable	-	4,498,923
Less: Cash and cash equivalent balances disposed of	-	(79,704)
	$ -	$ 4,643,189

28. CAPITAL MANAGEMENT

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

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

29. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Financial instruments not carried 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.

b. Fair value measurements recognized in the consolidated balance sheet.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2014

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 262,544	$ -	$ 262,544
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 93	$ -	$ -	$ 93
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 22,424	$ -	$ 22,424

(Continued)

December 31, 2013

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 162,297	$ -	$ 162,297
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 239	$ -	$ -	$ 239

(Concluded)

There were no transfers between Levels 1 and 2 for the years ended December 31, 2014 and 2013.

c. Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed corporate bonds). Where such prices were not available, valuation techniques were applied. The estimates and assumptions used by the Company are consistent with those that market participants would use in setting a price for the financial instrument;
- The fair values of derivative instruments were calculated using quoted prices. Where such prices were not available, a discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. The estimates and assumptions used by the Company were consistent with those that market participants would use in setting a price for the financial instrument;

  Foreign currency forward contracts were measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts; and
- The fair values of other financial assets and financial liabilities (excluding those described above) were determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Categories of Financial Instruments

	December 31	
	2014	2013
Financial assets		
FVTPL		
Held for trading	$ 262,544	$ 162,297
Loans and receivables (Note 1)	87,417,203	83,114,076
Available-for-sale financial assets (Note 2)	2,586,571	4,603,300
Financial liabilities		
FVTPL		
Held for trading	22,424	-
Amortized cost (Note 3)	76,290,450	84,824,794

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments without active market, other current financial assets, trade receivables, other receivables and refundable deposits.
Note 2: The balances included the carrying amount of held for trading 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 Department of Financial and Accounting provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through analyzing 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 and exposure limits 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 Department of Financial and Accounting reported 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 has 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 please refer to Note 33.

Sensitivity analysis

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

The following table details the Company' s sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and the forward exchange contracts were entered into cash flow hedges. A positive number below indicates an increase in profit (loss) before income tax or equity where the NTD strengthens 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be a comparable impact on the profit (loss) before income tax or equity, and the balances below would be negative.

	Profit or Loss (1)	Equity (2)
Year ended December 31, 2014		
USD	$ 40,670	$ -
EUR	(9,028)	-
RMB	(35,725)	-
JPY	2,324	-
Year ended December 31, 2013		
USD	54,355	-
EUR	(18,430)	-
RMB	(24,673)	-
JPY	3,377	-

1) This was mainly attributable to the exposure outstanding on each currency receivables and payables, which were not hedged at the end of the reporting period.
2) This was mainly as a result of the changes in fair value of derivative instruments designated as hedging instruments in cash flow hedges.

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 of December 31, 2014, the Company' s maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and the carrying amount of financial assets reported on consolidated balance sheet. The Company does not issue any financial guarantee involving credit risk.

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

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

c. Liquidity risk

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

1) Liquidity risk tables

The following tables detail the Company's remaining contractual maturity for its derivative financial liabilities and 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. The tables included both interest and principal cash flows.

December 31, 2014

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 14,037,502	$ 29,765,841	$ -
Other payables	12,648,166	19,589,779	-
Other current liabilities	60,588	145,344	-
Guarantee deposits received	-	-	43,230
	26,746,256	49,500,964	43,230
Derivative financial liabilities			
Financial liabilities held for trading	22,424	-	-
	$ 26,768,680	$ 49,500,964	$ 43,230

December 31, 2013

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 13,087,630	$ 33,188,221	$ -
Other payables	14,813,806	23,219,193	-
Other current liabilities	74,952	184,577	-
Guarantee deposits received	-	-	256,415
	$ 27,976,388	$ 56,591,991	$ 256,415

2) Bank credit limit

	December 31	
	2014	2013
Unsecured bank general credit limit		
Amount used	$ 1,638,476	$ 1,697,088
Amount unused	43,623,999	45,647,802
	$ 45,262,475	$ 47,344,890

30. 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. Except disclosed in other notes, details of transactions between the Company and other related parties are disclosed below.

Operating Sales

	For the Year Ended December 31	
	2014	2013
Main management	$ 2,430	$ 2,002
Other related parties - Employees' Welfare Committee	22,404	23,454
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	10,463	12,439
	$ 35,297	$ 37,895

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

	December 31	
	2014	2013
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$ 925	$ 1,309

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been given or received for trade receivables from related parties. No bad debt expense had been recognized for the years ended December 31, 2014 and 2013 for the amounts owed by related parties.

Purchase

	For the Year Ended December 31	
	2014	2013
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$ 4,454	$ 62,030

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

	December 31	
	2014	2013
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$ -	$ 8,303

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

Loans to Related Parties

On July 19, 2012, the Company's board of directors passed a resolution to offer US$225,000 thousand short-term loan to Beats Electronics, LLC to support the transition of Beats Electronics, LLC into a product company. This loan was secured by all the assets of Beats Electronics, LLC. Term loan must be repaid in full no later than one year from signing date of loan agreement and the repayment can be made in full at any time during the term of the loan or at the repayment date. The calculation of interest is based on LIBOR plus 1.5%, 3.5%, 5.5% and 7.5% for the first quarter to the fourth quarter, respectively. The principal and interest were received in full in June 2013. The interest income amounted to NT$211,139 thousand for the year ended December 31, 2013.

Compensation of Key Management Personnel

	For the Year Ended December 31	
	2014	2013
Short-term benefits	$ 528,353	$ 577,638
Post-employment benefits	2,381	2,979
Termination benefits	-	165
Share-based payments	60,921	5,634
	$ 591,655	$ 586,416

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

Property, Plant and Equipment Acquired

	For the Year Ended December 31	
	2014	2013
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$ -	$ 3,238

Other Related-party Transactions

a. To enhance product diversity, the Company entered into a trademark and technology license agreement with associate. The royalty expense was NT$219,026 thousand for the year ended December 31, 2013.

b. Other related parties provide business consulting service to the Company. The business consulting service fees were NT$1,400 thousand and NT$2,748 thousand for the years ended December 31, 2014 and 2013, respectively.

c. The Company leased staff dormitory owned by a related party under an operating lease agreement. The term of the lease agreement is from April 2012 to March 2015 and the rental payment is determined at the prevailing rates in the surrounding area. The Company recognized and paid rental expenses amounting to NT$5,209 thousand for the years ended December 31, 2014 and 2013, each.

d. Other related parties provided marketing and advertising services to the Company. The marketing expense was NT$16,150 thousand for the year ended December 31, 2014. As of December 31, 2014, the amount of unpaid marketing expense was NT$158 thousand.

e. In October, 2013, the Company sold back all of shares in Beats Electronics, LLC to Beats Electronics, LLC for US$265,000 thousand. This transaction resulted in the recognition of a gain on disposal amounting to NT$2,637,673 thousand. For the related information, please refer to Note 14.

31. PLEDGED ASSETS

To protect the rights and interests of its employees, In September 2012, the Company deposited unpaid employee bonus in a new trust account. The Company had paid the employee bonus and closed the trust account in August 2014. The trust account, which is under other current financial assets, had amounted to NT$2,359,041 thousand as of December 31, 2013.

As of December 31, 2014 and 2013 the Company had provided time deposits of NT$664 thousand and NT$1,090 thousand had been classified as other current financial assets, respectively, as collateral for rental deposits.

32. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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 evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against 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.

   As of the date that the board of directors approved and authorized for issuing consolidated financial statements, there had been no critical hearing nor had a court decision been made, except for the above.

b. 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.

33. EXCHANGE RATES OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31			
	2014		2013	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets				
Monetary items				
USD	$ 2,160,227	31.67	$ 2,109,805	29.93
EUR	196,735	38.49	301,083	41.27
JPY	6,488,920	0.2648	3,089,002	0.2851
RMB	1,109,920	5.10	884,849	4.94
Non-monetary items				
USD	61,581	31.67	130,415	29.93
Investments accounted for by the equity method				
USD	500	31.67	-	-
Financial liabilities				
Monetary items				
USD	1,683,114	31.67	1,856,825	29.93
EUR	165,221	38.49	257,486	41.27
JPY	8,025,706	0.2648	6,432,408	0.2851
RMB	801,706	5.10	1,446,364	4.94

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	Contract Term	Description
Apple, Inc.	November 11, 2012 - November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalty payable as prescribed.
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on 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.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
.	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.	
Nokia Corporation	January 1, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
	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.

(Continued)

Contractor	Contract Term	Description
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.
Telefonaktiebolaget LM Ericsson (PUBL)	December 31, 2014 - December 31, 2016	Authorization to use GSM and wireless technology; royalty payment based on agreement.

(Continued)

35. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Under IFRS 8 - "Operating Segments," the Company is organized and managed as a single reportable business segment. The Company's operations are mainly in the research, design, manufacture and sale of smart mobile devices and the operating revenue is more than 90 percent of the total revenue.

Operating segment financial information was as follows:

Geographical Areas

The Company's non-current assets (other than financial instruments, deferred tax assets and post-employment benefit assets) located in Taiwan and in single foreign country as of December 31, 2014 and 2013 were as follows:

	December 31	
	2014	2013
Taiwan	$ 28,596,217	$ 31,928,554
Country Y	4,060,449	4,808,349
Country Z	202,977	411,746
Others	7,703,051	8,816,216
	$ 40,562,694	$ 45,964,865

The Company's revenues from Taiwan and from single foreign country that were 10 percent or more of consolidated total revenues for the years ended December 31, 2014 and 2013 were as follows:

	For the Year Ended December 31	
	2014	2013
Taiwan	$ 19,024,109	$ 19,882,726
Country Y	22,646,278	33,008,560
Country Z	48,628,331	48,673,014
Others	97,612,482	101,838,348
	$ 187,911,200	$ 203,402,648

Major Customers

The Company did not have transactions with single external customers whose revenues amounted to 10 percent or more of the Company's total revenues for the years ended December 31, 2014 and 2013.

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 long-term 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 venders/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, venders/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, venders/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 venders/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 Venders/Suppliers and Customers Relationship

It is a basic principle in Company business operations to maintain a good relationship with our venders/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 venders/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 venders/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 venders/suppliers and achieve world-class competitiveness. To maintain HTC's valuable reputation and the benefits to our customers and venders/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 venders'/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 venders/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 (anti-corruption@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, venders/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, venders/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/venders, 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.

宏達國際電子股份有限公司

HTC Corporation

Chairwoman: Cher Wang