

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2014 and 2013 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of March 31, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed by Financial Supervisory Commission of the Republic of China.

May 6, 2014

Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars) (Review, Not Audited)

ASSETS	March 31, 2014		December 31, 2013		January 1, 2013	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 43,930,278	27	\$ 53,298,941	31	\$ 47,452,141	23
Financial assets at fair value through profit or loss - current (Notes 7 and 29)	97,386	-	162,297	-	228,702	-
Held-to-maturity financial assets - current (Note 29)	-	-	-	-	101,036	-
Trade receivables, net (Notes 11 and 30)	22,936,333	14	23,371,172	14	28,542,304	14
Other receivables (Note 11)	2,107,931	1	2,137,653	1	1,436,943	1
Other receivables - related parties (Notes 11 and 30)	-	-	-	-	6,788,707	3
Current tax assets	213,059	-	238,085	-	319,482	-
Inventories (Note 12)	25,122,403	15	23,599,558	14	38,103,851	19
Prepayments (Note 13)	6,773,141	4	5,803,744	3	5,838,434	3
Other current financial assets (Notes 10 and 31)	2,601,678	2	2,771,023	2	4,179,754	2
Other current assets	126,076	-	124,808	-	54,280	-
Total current assets	<u>103,908,285</u>	<u>63</u>	<u>111,507,281</u>	<u>65</u>	<u>133,045,634</u>	<u>65</u>
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Note 29)	208	-	239	-	173	-
Financial assets measured at cost - non-current (Notes 9 and 29)	5,062,511	3	4,603,061	2	4,444,000	2
Investments accounted for using the equity method (Note 14)	224,645	-	227,504	-	5,316,819	3
Property, plant and equipment (Notes 15 and 30)	24,910,603	15	25,561,399	15	25,840,345	13
Intangible assets (Note 16)	8,459,667	5	8,664,066	5	11,677,252	6
Deferred tax assets	8,727,935	5	8,665,235	5	8,577,968	4
Refundable deposits	275,570	-	352,894	-	181,926	-
Long-term receivables (Note 11)	1,206,060	1	1,182,393	1	4,479,375	2
Prepaid pension cost - non-current	129,776	-	125,715	-	125,230	-
Other non-current assets (Note 13)	12,571,093	8	11,739,400	7	10,463,896	5
Total non-current assets	<u>61,568,068</u>	<u>37</u>	<u>61,121,906</u>	<u>35</u>	<u>71,106,984</u>	<u>35</u>
TOTAL	<u>\$ 165,476,353</u>	<u>100</u>	<u>\$ 172,629,187</u>	<u>100</u>	<u>\$ 204,152,618</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 17)	\$ 2,518,268	2	\$ -	-	\$ -	-
Note and trade payables (Notes 18 and 30)	43,211,781	26	46,275,851	27	75,253,626	37
Other payables (Notes 19 and 30)	34,929,759	21	38,032,999	22	35,168,299	17
Current tax liabilities	659,692	-	1,040,128	1	2,538,455	1
Provisions - current (Note 20)	6,311,041	4	8,208,885	5	7,649,765	4
Other current liabilities (Note 19)	952,823	1	956,127	-	2,185,362	1
Total current liabilities	<u>88,583,364</u>	<u>54</u>	<u>94,513,990</u>	<u>55</u>	<u>122,795,507</u>	<u>60</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities	158,793	-	151,122	-	365,047	-
Guarantee deposits received	264,494	-	256,415	-	53,136	-
Total non-current liabilities	<u>423,287</u>	<u>-</u>	<u>407,537</u>	<u>-</u>	<u>418,183</u>	<u>-</u>
Total liabilities	<u>89,006,651</u>	<u>54</u>	<u>94,921,527</u>	<u>55</u>	<u>123,213,690</u>	<u>60</u>
EQUITY (Note 22)						
Share capital - common stock	8,403,521	5	8,423,505	5	8,520,521	4
Capital surplus	14,742,307	9	15,360,307	9	16,601,557	8
Retained earnings						
Legal reserve	18,149,350	11	18,149,350	11	16,471,254	8
Special reserve	854,138	-	854,138	-	-	-
Accumulated earnings	44,494,871	27	47,282,820	27	53,715,903	27
Other equity	1,152,333	1	557,698	-	(304,817)	-
Treasury shares	(11,326,818)	(7)	(12,920,158)	(7)	(14,065,490)	(7)
Total equity	<u>76,469,702</u>	<u>46</u>	<u>77,707,660</u>	<u>45</u>	<u>80,938,928</u>	<u>40</u>
TOTAL	<u>\$ 165,476,353</u>	<u>100</u>	<u>\$ 172,629,187</u>	<u>100</u>	<u>\$ 204,152,618</u>	<u>100</u>

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31			
	2014		2013	
	Amount	%	Amount	%
REVENUES (Notes 23 and 30)	\$ 33,120,843	100	\$ 42,788,517	100
COST OF REVENUES (Notes 12, 24 and 30)	<u>26,157,178</u>	<u>79</u>	<u>34,106,365</u>	<u>80</u>
GROSS PROFIT	<u>6,963,665</u>	<u>21</u>	<u>8,682,152</u>	<u>20</u>
OPERATING EXPENSES (Notes 24 and 30)				
Selling and marketing	4,464,754	13	3,922,834	9
General and administrative	1,539,892	5	1,547,885	4
Research and development	<u>3,006,710</u>	<u>9</u>	<u>3,168,075</u>	<u>7</u>
Total operating expenses	<u>9,011,356</u>	<u>27</u>	<u>8,638,794</u>	<u>20</u>
OPERATING (LOSS) PROFIT	<u>(2,047,691)</u>	<u>(6)</u>	<u>43,358</u>	<u>-</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 24)	106,962	-	258,308	1
Other gains and losses (Note 24)	67,188	-	(242,554)	(1)
Finance costs	(4,863)	-	(48)	-
Share of the profit or loss of associates and joint ventures accounted for using the equity method (Note 14)	<u>(2,859)</u>	<u>-</u>	<u>43,681</u>	<u>-</u>
Total non-operating income and expenses	<u>166,428</u>	<u>-</u>	<u>59,387</u>	<u>-</u>
(LOSS) PROFIT BEFORE INCOME TAX	(1,881,263)	(6)	102,745	-
INCOME TAX (Note 25)	<u>-</u>	<u>-</u>	<u>17,619</u>	<u>-</u>
(LOSS) PROFIT FOR THE PERIOD	<u>(1,881,263)</u>	<u>(6)</u>	<u>85,126</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME AND LOSS				
Exchange differences on translating foreign operations	594,666	2	786,964	2
Unrealized losses on available-for-sale financial assets	(31)	-	(11,804)	-
Cash flow hedge	<u>-</u>	<u>-</u>	<u>(194,052)</u>	<u>-</u>
Other comprehensive income and loss for the period, net of income tax	<u>594,635</u>	<u>2</u>	<u>581,108</u>	<u>2</u>
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	<u>\$ (1,286,628)</u>	<u>(4)</u>	<u>\$ 666,234</u>	<u>2</u>

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31			
	2014		2013	
	Amount	%	Amount	%
ALLOCATIONS OF (LOSS) PROFIT FOR THE PERIOD ATTRIBUTABLE TO				
Owners of the parent	<u>\$ (1,881,263)</u>	<u>(6)</u>	<u>\$ 85,126</u>	<u>-</u>
ALLOCATIONS OF TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD ATTRIBUTABLE TO				
Owners of the parent	<u>\$ (1,286,628)</u>	<u>(4)</u>	<u>\$ 666,234</u>	<u>2</u>
(LOSS) EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ (2.28)</u>		<u>\$ 0.10</u>	
Diluted	<u>\$ (2.28)</u>		<u>\$ 0.10</u>	

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	<u>Share Capital</u> <u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained Earnings</u>			<u>Exchange</u> <u>Differences on</u> <u>Translating</u> <u>Foreign</u> <u>Operations</u>	<u>Other Equity</u>		<u>Treasury</u> <u>Shares</u>	<u>Total Equity</u>
			<u>Legal Reserve</u>	<u>Special Reserve</u>	<u>Accumulated</u> <u>Earnings</u>		<u>Unrealized</u> <u>Gain (Loss) on</u> <u>Available-for-</u> <u>sale Financial</u> <u>Assets</u>	<u>Cash Flow</u> <u>Hedge</u>		
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
Profit for the three months ended March 31, 2013	-	-	-	-	85,126	-	-	-	-	85,126
Other comprehensive income and loss for the three months ended March 31, 2013	-	-	-	-	-	786,964	(11,804)	(194,052)	-	581,108
BALANCE, MARCH 31, 2013	<u>\$ 8,520,521</u>	<u>\$ 16,601,557</u>	<u>\$ 16,471,254</u>	<u>\$ -</u>	<u>\$ 53,715,903</u>	<u>\$ (302,729)</u>	<u>\$ (2,088)</u>	<u>\$ -</u>	<u>\$ (14,065,490)</u>	<u>\$ 80,938,928</u>
BALANCE, JANUARY 1, 2014	\$ 8,423,505	\$ 15,360,307	\$ 18,149,350	\$ 854,138	\$ 47,282,820	\$ 559,719	\$ (2,021)	\$ -	\$ (12,920,158)	\$ 77,707,660
Loss for the three months ended March 31, 2014	-	-	-	-	(1,881,263)	-	-	-	-	(1,881,263)
Other comprehensive income and loss for the three months ended March 31, 2014	-	-	-	-	-	594,666	(31)	-	-	594,635
Retirement of treasury stock	(19,984)	(666,670)	-	-	(906,686)	-	-	-	1,593,340	-
Share-based payments	-	48,670	-	-	-	-	-	-	-	48,670
BALANCE, MARCH 31, 2014	<u>\$ 8,403,521</u>	<u>\$ 14,742,307</u>	<u>\$ 18,149,350</u>	<u>\$ 854,138</u>	<u>\$ 44,494,871</u>	<u>\$ 1,154,385</u>	<u>\$ (2,052)</u>	<u>\$ -</u>	<u>\$ (11,326,818)</u>	<u>\$ 76,469,702</u>

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) profit before income tax	\$ (1,881,263)	\$ 102,745
Adjustments for:		
Depreciation	785,083	694,689
Amortization	464,673	494,060
Impairment loss recognized on trade and other receivables	-	575,816
Finance costs	4,863	48
Interests income	(62,173)	(159,635)
Dividend income	(3,680)	(10,005)
Compensation cost of employee share options	48,670	-
Share of the profit or loss of associates and joint ventures	2,859	(43,681)
Losses on disposal of property, plant and equipment	751	1,558
Gain on sale of investments	-	(29,735)
Impairment losses on non-financial assets	80,657	542,152
Net changes in operating assets and liabilities		
Decrease (increase) in financial instruments held for trading	64,911	(221,752)
Decrease in derivative financial instruments for hedging	-	204,519
Decrease in trade receivables	434,839	12,313,606
Decrease (increase) in other receivables	26,576	(63,616)
Increase in inventories	(1,603,502)	(14,494,140)
Increase in prepayments	(969,397)	(1,382,330)
Increase in other current assets	(1,268)	(15,183)
Increase in other non-current assets	(764,343)	(593,101)
(Decrease) increase in note and trade payables	(3,064,070)	1,635,429
Decrease in other payables	(2,840,701)	(3,677,970)
Decrease in provisions	(1,897,844)	(1,231,749)
(Decrease) increase in other current liabilities	(3,304)	397,256
Cash used in operations	(11,177,663)	(4,961,019)
Interest received	65,319	132,677
Interest paid	(3,378)	(48)
Income tax paid	(410,439)	(621,502)
Net cash used in operating activities	<u>(11,526,161)</u>	<u>(5,449,892)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the sale of available-for-sale financial assets	-	56,738
Payments to acquire financial assets measured at cost	(383,349)	(48,382)
Payments for property, plant and equipment	(477,451)	(1,153,075)
Proceeds from disposal of property, plant and equipment	2,511	126,199
Decrease in refundable deposits	77,324	8,216
Payments for intangible assets	(132,557)	(127,150)

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31	
	2014	2013
Decrease in other current financial assets	\$ 169,345	\$ 2,381,690
Dividends received	<u>3,680</u>	<u>655,619</u>
Net cash (used in) generated from investing activities	<u>(740,497)</u>	<u>1,899,855</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	2,518,268	-
Increase in guarantee deposits received	8,079	-
Refund of guarantee deposits	<u>-</u>	<u>(6,863)</u>
Net cash generated from (used in) financing activities	<u>2,526,347</u>	<u>(6,863)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	<u>371,648</u>	<u>42,898</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,368,663)	(3,514,002)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>53,298,941</u>	<u>50,966,143</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 43,930,278</u>	<u>\$ 47,452,141</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

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

The functional currency of HTC is New Taiwan dollars. The consolidated financial statements are presented in New Taiwan dollars since HTC is the 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 May 6, 2014.

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

- a. 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 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 starting January 1, 2015.

<u>New, Revised Standards, Amendments and Interpretations</u>	<u>Effective Date Announced by IASB (Note)</u>
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

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<u>New, Revised Standards, Amendments and Interpretations</u>	<u>Effective Date Announced by IASB (Note)</u>
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

(Concluded)

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

Except for the following, the initial application of the above 2013 IFRSs version has not had any material impact on the Company’s accounting policies:

1) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than in the current standards.

2) 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.

3) 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 is the 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 gains (loss) on available-for-sale financial assets and cash flow hedges.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Company was continuingly to assess other possible impacts that the application of the 2013 IFRSs version will have on the Company’s financial position and operating result, and will disclose these other impacts when the assessment is completed.

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.

<u>The New IFRSs Not Included in the 2013 IFRSs Version</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
IFRS 9 “Financial Instruments”	Note 3
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	Note 3
Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	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: IASB tentatively decided that an entity should apply IFRS 9 for annual periods beginning on or after January 1, 2018.

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

IFRS 9 "Financial Instruments"

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. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of reporting period.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES

Except for the following, the same accounting policies have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2013.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 - Interim Financial Reporting as endorsed by FSC. Disclosure information included in interim financial reports is less than disclosures required in a full set of annual financial reports.

For readers' convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include the English translation of the additional footnote disclosures that are not required under accounting principles and practices generally applied in the Republic of China but are required by the Securities and Futures Bureau for their oversight purposes.

Basis of Consolidation

a. Subsidiary included in consolidated financial statements

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

Investor	Investee	Main Businesses	% of Ownership			Remark
			March 31, 2014	December 31, 2013	March 31, 2013	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	100.00	100.00	100.00	-
	Communication Global Certification Inc.	Import of controlled telecommunications radio-frequency devices and software services	100.00	100.00	100.00	-
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Investment Corporation	General investing activities	100.00	100.00	100.00	-
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales service	1.00	1.00	1.00	-
	HTC I Investment Corporation	General investing activities	100.00	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	0.01	0.01	1.00	-
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	100.00	-
	FunStream Corporation	Design, research and development of three-D technology	-	-	100.00	1)
H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer (H.K.) Limited	Marketing, repair and after-sales service	100.00	100.00	100.00	-
	HTC (Australia and New Zealand) Pty. Ltd.	"	100.00	100.00	100.00	-
	HTC Philippines Corporation	"	99.99	99.99	99.99	-
	PT. High Tech Computer Indonesia	"	99.00	99.00	99.00	-
	HTC (Thailand) Limited	"	100.00	100.00	100.00	-
	HTC India Private Ltd.	"	99.00	99.00	99.00	-
	HTC Malaysia Sdn. Bhd.	"	100.00	100.00	100.00	-
	HTC Innovation Limited	"	100.00	100.00	100.00	-
	HTC Communication Co., Ltd.	Manufacture and sale of smart mobile devices and after-sales service	100.00	100.00	100.00	-
HTC HK, Limited	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	99.99	99.99	99.00	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	100.00	-
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	100.00	100.00	100.00	-
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	100.00	-
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	100.00	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	1.00	-
	HTC South Eastern Europe Limited Liability Company	"	0.67	0.67	0.67	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership			Remark
			March 31, 2014	December 31, 2013	March 31, 2013	
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company	100.00	100.00	100.00	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	99.99	-
	HTC Belgium BVBA/SPRL	"	100.00	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	99.33	-
	HTC Nordic ApS.	"	100.00	100.00	100.00	-
	HTC Italia SRL	"	100.00	100.00	100.00	-
	HTC Germany GmbH	"	100.00	100.00	100.00	-
	HTC Iberia, S.L.	"	100.00	100.00	100.00	-
	HTC Poland sp. z.o.o.	"	100.00	100.00	100.00	-
	Saffron Media Group Ltd.	International holding company, design, research and development of application software	-	-	100.00	2)
	HTC Communication Canada, Ltd.	Marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Norway AS	"	100.00	100.00	100.00	-
	HTC RUS LLC	"	100.00	100.00	100.00	-
	HTC Communication Sweden AB	"	100.00	100.00	100.00	-
	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	100.00	-
HTC Netherlands B.V.	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	100.00	-
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	100.00	-
HTC FRANCE CORPORATION	ABAXIA SAS	International holding company, design, research and development of application software	100.00	100.00	100.00	-
HTC America Holding Inc.	HTC America Inc.	Sale of smart mobile devices	100.00	100.00	100.00	-
	One & Company Design, Inc.	Design, research and development of application software	100.00	100.00	100.00	-
	HTC America Innovation Inc.	"	100.00	100.00	100.00	-
	HTC America Content Services, Inc.	Online/download media services	100.00	100.00	100.00	-
	Dashwire, Inc.	Design, research and development of wireless connectivity software	100.00	100.00	100.00	-
	Inquisitive Minds, Inc.	Development and sale of digital education platform	100.00	100.00	100.00	-
ABAXIA SAS	HTC BLR	Design, research and development of application software	100.00	100.00	100.00	-
Saffron Media Group Ltd.	Saffron Digital Ltd.	Design, research and development of application software	-	-	100.00	2)
	Saffron Digital Inc.	"	-	-	100.00	2)

(Concluded)

Remark:

1) In February 2012, the Company invested in FunStream Corporation shares. FunStream Corporation was dissolved in June 2013.

2) Saffron Media Group Ltd. and its subsidiaries were disposed in September 2013.

b. Subsidiary not consolidated: None

Retirement Benefit Costs

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis. Interim period income tax expense is calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2013.

6. CASH AND CASH EQUIVALENTS

	March 31, 2014	December 31, 2013	March 31, 2013
Cash on hand	\$ 2,406	\$ 2,479	\$ 1,789
Checking accounts and demand deposits	33,890,603	28,654,223	20,987,040
Cash equivalents			
Time deposits (with original maturities less than three months)	<u>10,037,269</u>	<u>24,642,239</u>	<u>26,463,312</u>
	<u>\$ 43,930,278</u>	<u>\$ 53,298,941</u>	<u>\$ 47,452,141</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Financial assets held for trading</u>			
Derivatives (not designated as hedging instruments)			
Exchange contracts	<u>\$ 97,386</u>	<u>\$ 162,297</u>	<u>\$ 228,702</u>

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
<u>March 31, 2014</u>					
Foreign exchange contracts	Buy	EUR/NTD	2014.04.10	EUR	28,000
Foreign exchange contracts	Buy	EUR/USD	2014.04.10	EUR	22,000
Foreign exchange contracts	Buy	GBP/USD	2014.04.09-2014.05.21	GBP	108,200
Foreign exchange contracts	Buy	USD/NTD	2014.04.03-2014.05.05	USD	420,500
Foreign exchange contracts	Sell	USD/NTD	2014.04.21	USD	30,000
Foreign exchange contracts	Sell	CAD/USD	2014.04.25-2014.05.28	CAD	11,600
Foreign exchange contracts	Sell	RMB/USD	2014.04.15-2014.05.28	RMB	799,219
Foreign exchange contracts	Sell	EUR/USD	2014.05.07-2014.05.28	EUR	16,000
Foreign exchange contracts	Sell	GBP/USD	2014.05.02	GBP	1,400
Foreign exchange contracts	Sell	JPY/USD	2014.04.09-2014.06.11	JPY	3,030,550
<u>December 31, 2013</u>					
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
<u>March 31, 2013</u>					
Foreign exchange contracts	Buy	RMB/USD	2013.04.24	RMB	186,633
Foreign exchange contracts	Buy	USD/NTD	2013.04.02-2013.04.08	USD	20,000
Foreign exchange contracts	Sell	CAD/USD	2013.04.03-2013.04.10	CAD	2,700
Foreign exchange contracts	Sell	RMB/USD	2013.04.10-2013.04.24	RMB	892,981
Foreign exchange contracts	Sell	EUR/USD	2013.04.10-2013.05.22	EUR	130,000
Foreign exchange contracts	Sell	GBP/USD	2013.04.03-2013.04.24	GBP	21,500
Foreign exchange contracts	Sell	JPY/USD	2013.04.03-2013.06.28	JPY	12,083,800
Foreign exchange contracts	Sell	USD/NTD	2013.04.08-2013.05.08	USD	277,000

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:

	Three Months Ended March 31	
	2014	2013
Revenues	\$ -	\$ 258,327
Other gains and losses	<u>-</u>	<u>151,197</u>
	<u>\$ -</u>	<u>\$ 409,524</u>

9. FINANCIAL ASSETS MEASURED AT COST

	March 31, 2014	December 31, 2013	March 31, 2013
Domestic unlisted equity investment	\$ 698,861	\$ 698,861	\$ 698,861
Overseas unlisted equity investment	1,865,503	1,830,694	1,826,137
Overseas unlisted mutual funds	<u>2,498,147</u>	<u>2,073,506</u>	<u>1,919,002</u>
	<u>\$ 5,062,511</u>	<u>\$ 4,603,061</u>	<u>\$ 4,444,000</u>
Classified according to financial asset measurement categories			
Available-for-sale financial assets	<u>\$ 5,062,511</u>	<u>\$ 4,603,061</u>	<u>\$ 4,444,000</u>

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

10. OTHER CURRENT FINANCIAL ASSETS

	March 31, 2014	December 31, 2013	March 31, 2013
Trust assets for employee benefit	\$ 2,361,852	\$ 2,359,041	\$ 3,656,057
Time deposits with original maturities more than three months	<u>239,826</u>	<u>411,982</u>	<u>523,697</u>
	<u>\$ 2,601,678</u>	<u>\$ 2,771,023</u>	<u>\$ 4,179,754</u>

To protect the rights and interests of its employees, the Company deposited unpaid employee bonus in a new trust account in September 2012 and were classified as other current financial assets.

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

11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Trade receivables</u>			
Trade receivables	\$ 25,978,765	\$ 26,420,770	\$ 31,000,374
Trade receivables - related parties	8,475	1,309	24,485
Less: Allowances for doubtful debts	<u>(3,050,907)</u>	<u>(3,050,907)</u>	<u>(2,482,555)</u>
	<u>\$ 22,936,333</u>	<u>\$ 23,371,172</u>	<u>\$ 28,542,304</u>
<u>Other receivables</u>			
Loan receivables - fluctuation rate	\$ -	\$ -	\$ 6,719,063
Receivables from disposal of investments	1,206,060	1,182,393	4,479,375
VAT refund receivables	205,274	355,442	478,781
Interest receivables	7,732	10,878	81,093
Others	1,894,925	1,771,333	1,124,613
Less: Allowances for doubtful debts	<u>-</u>	<u>-</u>	<u>(177,900)</u>
	<u>\$ 3,313,991</u>	<u>\$ 3,320,046</u>	<u>\$ 12,705,025</u>
Current - other receivables	\$ 2,107,931	\$ 2,137,653	\$ 8,225,650
Non-current - other receivables	<u>1,206,060</u>	<u>1,182,393</u>	<u>4,479,375</u>
	<u>\$ 3,313,991</u>	<u>\$ 3,320,046</u>	<u>\$ 12,705,025</u>

Trade Receivables

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

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

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

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

Age of impaired trade receivables

	March 31, 2014	December 31, 2013	March 31, 2013
1-90 days	\$ 1,864,142	\$ 3,714,226	\$ 5,518,505
91-180 days	202,337	1,468,049	223,684
Over 181 days	<u>46,699</u>	<u>803,422</u>	<u>920</u>
	<u>\$ 2,113,178</u>	<u>\$ 5,985,697</u>	<u>\$ 5,743,109</u>

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

Movement in the allowances for doubtful debts

	Three Months Ended March 31	
	2014	2013
Balance, beginning of period	\$ 3,050,907	\$ 2,086,085
Impairment losses recognized on receivables	-	397,916
Amounts written off during the period	-	(13,943)
Translation adjustment	<u>-</u>	<u>12,497</u>
Balance, end of period	<u>\$ 3,050,907</u>	<u>\$ 2,482,555</u>

Other Receivables

Loan receivables - fluctuation rate is the short-term loan to Beats Electronics, LLC. For more details, please refer to Note 30.

Receivable from disposal of investments is the amount of sale of shares of Saffron Media Group Ltd. in 2013.

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

12. INVENTORIES

	March 31, 2014	December 31, 2013	March 31, 2013
Finished goods	\$ 2,426,968	\$ 3,487,921	\$ 1,949,161
Work-in-process	2,046,843	521,423	1,669,926
Semi-finished goods	7,663,859	8,244,216	9,083,583
Raw materials	12,495,777	11,074,773	25,162,262
Inventory in transit	<u>488,956</u>	<u>271,225</u>	<u>238,919</u>
	<u>\$ 25,122,403</u>	<u>\$ 23,599,558</u>	<u>\$ 38,103,851</u>

The losses on inventories decline amounting to NT\$80,657 thousand and NT\$199,666 thousand were recognized as cost of revenues for the three month ended March 31, 2014 and 2013, respectively.

13. PREPAYMENTS

	March 31, 2014	December 31, 2013	March 31, 2013
Royalty	\$ 13,953,923	\$ 12,007,756	\$ 10,696,896
Prepayments to suppliers	2,322,502	2,492,197	3,034,849
Net input VAT	1,905,016	1,918,462	1,467,344
Prepaid equipment	265,611	194,200	420,249
Service	222,859	113,661	114,447
Software and hardware maintenance	176,860	139,958	157,291
Land use right	136,600	138,376	134,371
Molding expenses	59,557	304,411	117,052
Others	<u>301,306</u>	<u>234,123</u>	<u>159,831</u>
	<u>\$ 19,344,234</u>	<u>\$ 17,543,144</u>	<u>\$ 16,302,330</u>
Current	\$ 6,773,141	\$ 5,803,744	\$ 5,838,434
Non-current	<u>12,571,093</u>	<u>11,739,400</u>	<u>10,463,896</u>
	<u>\$ 19,344,234</u>	<u>\$ 17,543,144</u>	<u>\$ 16,302,330</u>

Prepayments for royalty were primarily for getting royalty right and were classified as current or non-current in accordance with their nature. For details of content of contracts, please refer to Note 35.

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 THE EQUITY METHOD

	March 31, 2014	December 31, 2013	March 31, 2013
Investment in associates	\$ -	\$ -	\$ 5,078,705
Investment in jointly controlled entities	<u>224,645</u>	<u>227,504</u>	<u>238,114</u>
	<u>\$ 224,645</u>	<u>\$ 227,504</u>	<u>\$ 5,316,819</u>

Investments in Associates

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Unlisted equity investments</u>			
Beats Electronics, LLC	\$ -	\$ -	\$ 5,078,705
SYNCTV Corporation	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,078,705</u>

The percentage of ownership and voting rights held by the Company at the end of reporting period were as follows:

	March 31, 2014	December 31, 2013	March 31, 2013
Beats Electronics, LLC			
Ownership	-	-	25.14%
Voting right	-	-	25.57%
SYNCTV Corporation	20.00%	20.00%	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 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 back 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	<u>39,884</u>
Gain recognized	<u>\$ 2,637,673</u>

The amount of unrecognized share of losses of those associates, both for the period and cumulatively, was as follows:

	Three Months Ended March 31	
	2014	2013
Unrecognized share of losses of associates		
Current amount	<u>\$ 2,780</u>	<u>\$ 2,643</u>
Accumulated amount	<u>\$ 15,841</u>	<u>\$ 6,249</u>

The investments in associates and the share of net income or loss and other comprehensive income from investments are accounted for based on the reviewed financial statements except for SYNCTV Corporation. The Company's management considers the use of unreviewed financial statements of the investee did not have material impact on its consolidated financial statements.

Investments in Jointly Controlled Entity

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Unlisted equity investments</u>			
Huada Digital Corporation	<u>\$ 224,645</u>	<u>\$ 227,504</u>	<u>\$ 238,114</u>

The percentage of ownership and voting rights held by the Company at the end of reporting period were as follows:

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

The Company acquired 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.

The investments in jointly controlled entity and the share of net income and other comprehensive income from investments are accounted for based on the unreviewed financial statements. The Company's management considers the use of unreviewed financial statements of the investee did not have material impact on its consolidated financial statements.

15. PROPERTY, PLANT AND EQUIPMENT

Carrying amounts	December 31,		
	March 31, 2014	2013	March 31, 2013
Land	\$ 7,627,398	\$ 7,623,287	\$ 7,609,913
Buildings	10,441,121	10,507,548	11,081,903
Property in construction	147	145	1,178
Machinery and equipment	5,305,929	5,761,926	6,234,451
Other equipment	<u>1,536,008</u>	<u>1,668,493</u>	<u>912,900</u>
	<u>\$ 24,910,603</u>	<u>\$ 25,561,399</u>	<u>\$ 25,840,345</u>

Movement of property, plant and equipment for the three months ended March 31, 2014 and 2013 were as follows:

	2014					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>						
Balance, beginning of period	\$ 7,623,287	\$ 12,229,591	\$ 145	\$ 14,480,912	\$ 3,564,884	\$ 37,898,819
Additions	-	35,307	-	47,249	59,460	142,016
Disposal	-	-	-	-	(48,510)	(48,510)
Translation adjustment	4,111	1,605	2	(27,393)	1,346	(20,329)
Balance, end of period	<u>7,627,398</u>	<u>12,266,503</u>	<u>147</u>	<u>14,500,768</u>	<u>3,577,180</u>	<u>37,971,996</u>
<u>Accumulated depreciation</u>						
Balance, beginning of period	-	1,722,043	-	8,718,986	1,896,391	12,337,420
Depreciation expenses	-	103,492	-	491,754	189,837	785,083
Disposal	-	-	-	-	(45,248)	(45,248)
Translation adjustment	-	(153)	-	(15,901)	192	(15,862)
Balance, end of period	-	<u>1,825,382</u>	-	<u>9,194,839</u>	<u>2,041,172</u>	<u>13,061,393</u>
Net book value, end of period	<u>\$ 7,627,398</u>	<u>\$ 10,441,121</u>	<u>\$ 147</u>	<u>\$ 5,305,929</u>	<u>\$ 1,536,008</u>	<u>\$ 24,910,603</u>

	2013					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>						
Balance, beginning of period	\$ 7,615,546	\$ 12,683,285	\$ -	\$ 13,310,647	\$ 1,956,423	\$ 35,565,901
Additions	-	144,243	1,178	265,282	146,401	557,104
Disposal	-	(5,995)	-	(127,278)	(234,113)	(367,386)
Translation adjustment	(5,633)	54,034	-	106,312	14,474	169,187
Balance, end of period	<u>7,609,913</u>	<u>12,875,567</u>	<u>1,178</u>	<u>13,554,963</u>	<u>1,883,185</u>	<u>35,924,806</u>
<u>Accumulated depreciation</u>						
Balance, beginning of period	-	1,596,572	-	6,982,924	995,639	9,575,135
Depreciation expenses	-	192,079	-	435,447	67,163	694,689
Disposal	-	(5,995)	-	(136,766)	(96,868)	(239,629)
Translation adjustment	-	11,008	-	38,907	4,351	54,266
Balance, end of period	<u>-</u>	<u>1,793,664</u>	<u>-</u>	<u>7,320,512</u>	<u>970,285</u>	<u>10,084,461</u>
Net book value, end of period	<u>\$ 7,609,913</u>	<u>\$ 11,081,903</u>	<u>\$ 1,178</u>	<u>\$ 6,234,451</u>	<u>\$ 912,900</u>	<u>\$ 25,840,345</u>

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 three months ended March 31, 2014 and 2013.

16. INTANGIBLE ASSETS

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Carrying amounts</u>			
Patents	\$ 7,397,458	\$ 7,668,901	\$ 8,988,041
Goodwill	174,253	174,253	1,187,839
Other intangible assets	<u>887,956</u>	<u>820,912</u>	<u>1,501,372</u>
	<u>\$ 8,459,667</u>	<u>\$ 8,664,066</u>	<u>\$ 11,677,252</u>

Movements of intangible assets for the three months ended March 31, 2014 and 2013 were as follows:

	2014			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Cost</u>				
Balance, beginning of period	\$ 11,496,490	\$ 874,784	\$ 1,689,432	\$ 14,060,706
Additions	-	-	132,557	132,557
Translation adjustment	171,151	12,906	14,055	198,112
Balance, end of period	<u>11,667,641</u>	<u>887,690</u>	<u>1,836,044</u>	<u>14,391,375</u>

(Continued)

	2014			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Accumulated amortization</u>				
Balance, beginning of period	\$ 3,716,504	\$ -	\$ 705,679	\$ 4,422,183
Amortization expenses	396,538	-	68,135	464,673
Translation adjustment	46,056	-	8,329	54,385
Balance, end of period	<u>4,159,098</u>	<u>-</u>	<u>782,143</u>	<u>4,941,241</u>
<u>Accumulated impairment</u>				
Balance, beginning of period	111,085	700,531	162,841	974,457
Translation adjustment	-	12,906	3,104	16,010
Balance, end of period	<u>111,085</u>	<u>713,437</u>	<u>165,945</u>	<u>990,467</u>
Net book value, end of period	<u>\$ 7,397,458</u>	<u>\$ 174,253</u>	<u>\$ 887,956</u>	<u>\$ 8,459,667</u>
	2013			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Cost</u>				
Balance, beginning of period	\$ 11,239,554	\$ 1,681,561	\$ 1,603,108	\$ 14,524,223
Additions				
Acquisition	22,213	-	104,937	127,150
Transfer from prepayment	-	-	509,710	509,710
Disposal	-	-	(17,027)	(17,027)
Adjustment in acquisition of a subsidiary	-	(13,979)	-	(13,979)
Translation adjustment	220,050	9,310	12,387	241,747
Balance, end of period	<u>11,481,817</u>	<u>1,676,892</u>	<u>2,213,115</u>	<u>15,371,824</u>
<u>Accumulated amortization</u>				
Balance, beginning of period	2,058,880	-	634,978	2,693,858
Amortization expenses	402,049	-	92,011	494,060
Disposal	-	-	(17,027)	(17,027)
Translation adjustment	32,847	-	1,781	34,628
Balance, end of period	<u>2,493,776</u>	<u>-</u>	<u>711,743</u>	<u>3,205,519</u>
<u>Accumulated impairment</u>				
Balance, beginning of period	-	147,195	-	147,195
Impairment losses	-	342,486	-	342,486
Translation adjustment	-	(628)	-	(628)
Balance, end of period	<u>-</u>	<u>489,053</u>	<u>-</u>	<u>489,053</u>
Net book value, end of period	<u>\$ 8,988,041</u>	<u>\$ 1,187,839</u>	<u>\$ 1,501,372</u>	<u>\$ 11,677,252</u>

The Company owns patents of graphics technologies. As of March 31, 2014, December 31, 2013 and March 31, 2013, the carrying amounts of such patents were NT\$6,482,206 thousand, NT\$6,641,606 thousand and NT\$7,465,625 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

17. SHORT-TERM BORROWINGS

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Unsecured borrowings</u>			
Line of credit borrowings	\$ <u>2,518,268</u>	\$ _____	\$ _____

As of March 31, 2014, the weighted average effective interest rate was 0.63%-1.19% per annum.

18. NOTE AND TRADE PAYABLES

	March 31, 2014	December 31, 2013	March 31, 2013
Note payables	\$ 883	\$ 1,355	\$ 48
Trade payables	43,210,898	46,266,193	75,245,134
Trade payables - related parties	_____	8,303	8,444
	\$ <u>43,211,781</u>	\$ <u>46,275,851</u>	\$ <u>75,253,626</u>

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.

19. OTHER LIABILITIES

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Other payables</u>			
Accrued expenses	\$ 34,378,009	\$ 36,999,785	\$ 33,793,001
Payables for purchase of equipment	551,750	815,774	1,063,796
Others	_____	217,440	311,502
	\$ <u>34,929,759</u>	\$ <u>38,032,999</u>	\$ <u>35,168,299</u>
<u>Other current liabilities</u>			
Advance receipts	\$ 611,316	\$ 529,470	\$ 753,349
Agency receipts	166,364	259,529	559,098
Others	_____	167,128	872,915
	\$ <u>952,823</u>	\$ <u>956,127</u>	\$ <u>2,185,362</u>

Accrued Expenses

	March 31, 2014	December 31, 2013	March 31, 2013
Marketing	\$ 20,898,955	\$ 22,592,673	\$ 18,308,772
Salaries and bonuses	4,590,000	5,757,389	5,054,283
Bonus to employees	3,272,580	3,278,053	5,716,770
Services	2,133,376	1,780,205	1,522,495
Materials and molding expenses	1,949,012	1,650,934	996,561
Import, export and freight	592,059	647,588	609,163
Repairs, maintenance and sundry purchase	153,983	237,463	408,658
Others	<u>788,044</u>	<u>1,055,480</u>	<u>1,176,299</u>
	<u>\$ 34,378,009</u>	<u>\$ 36,999,785</u>	<u>\$ 33,793,001</u>

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

20. PROVISIONS

	March 31, 2014	December 31, 2013	March 31, 2013
Warranty provision	\$ 5,545,281	\$ 7,376,035	\$ 7,018,964
Provisions for contingent loss on purchase orders	<u>765,760</u>	<u>832,850</u>	<u>630,801</u>
	<u>\$ 6,311,041</u>	<u>\$ 8,208,885</u>	<u>\$ 7,649,765</u>

Movement of provisions for the three months ended March 31, 2014 and 2013 were as follows:

	2014		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of period	\$ 7,376,035	\$ 832,850	\$ 8,208,885
Provisions recognized	3,483,290	-	3,483,290
Change of estimates	-	(21,347)	(21,347)
Amount utilized during the period	(5,288,595)	(45,743)	(5,334,338)
Translation adjustment	<u>(25,449)</u>	<u>-</u>	<u>(25,449)</u>
Balance, end of period	<u>\$ 5,545,281</u>	<u>\$ 765,760</u>	<u>\$ 6,311,041</u>

	2013		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of period	\$ 8,058,509	\$ 823,005	\$ 8,881,514
Provisions recognized	2,018,068	-	2,018,068
Change of estimates	-	(115,049)	(115,049)
Amount utilized during the period	(3,162,166)	(77,155)	(3,239,321)
Translation adjustment	<u>104,553</u>	<u>-</u>	<u>104,553</u>
Balance, end of period	<u>\$ 7,018,964</u>	<u>\$ 630,801</u>	<u>\$ 7,649,765</u>

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.

21. RETIREMENT BENEFIT PLANS

The Company recognized employee benefit expenses for defined benefit plan, calculated using the actuarially determined pension cost rate as of December 31, 2013 and 2012, respectively. Employee benefit expenses for defined benefit plans for the reporting period were included in the following line items:

	Three Months Ended March 31	
	2014	2013
Operating cost	\$ 430	\$ 105
Selling and marketing	144	21
General and administrative	203	47
Research and development	<u>938</u>	<u>152</u>
	<u>\$ 1,715</u>	<u>\$ 325</u>

22. EQUITY

Share Capital

a. Common stock

	March 31, 2014	December 31, 2013	March 31, 2013
Authorized shares (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Authorized capital	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Issued and fully paid shares (in thousands of shares)	<u>840,352</u>	<u>842,351</u>	<u>852,052</u>
Issued capital	<u>\$ 8,403,521</u>	<u>\$ 8,423,505</u>	<u>\$ 8,520,521</u>

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 2014, the Company retired 1,999 thousand treasury shares amounting to NT\$19,984 thousand. As a result, the amount of the Company's outstanding common stock as of March 31, 2014 decreased to NT\$8,403,521 thousand, divided into 840,352 thousand common shares at NT\$10 par value. Every common stock carries one vote per share and a right to dividends.

16,000 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 March 31, 2014, there were 8,279.4 thousand units of GDRs redeemed, representing 33,117.8 thousand common shares, and the outstanding GDRs represented 2,942.7 thousand common shares or 0.36% of HTC's outstanding common shares.

Capital Surplus

	March 31, 2014	December 31, 2013	March 31, 2013
Additional paid-in capital - issuance of shares in excess of par	\$ 14,606,248	\$ 14,640,983	\$ 14,809,608
Treasury stock	-	631,791	1,730,458
Merger	24,088	24,145	24,423
Employee share options	75,412	26,742	-
Expired stock options	<u>36,559</u>	<u>36,646</u>	<u>37,068</u>
	<u>\$ 14,742,307</u>	<u>\$ 15,360,307</u>	<u>\$ 16,601,557</u>

The premium from shares issued in excess of par (share premium from issuance of common shares, treasury shares 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 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 accumulated earnings amounting to NT\$814,170 thousand.

In February 2014, the retirement of treasury shares caused decreases of NT\$34,735 thousand in additional paid-in capital - issuance of shares in excess of par, NT\$1,499 thousand in capital surplus - treasury shares, NT\$57 thousand in capital surplus - merger and NT\$87 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 accumulated earnings amounting to NT\$906,686 thousand.

Retained Earnings and Dividend Policy

Under HTC's Articles of Incorporation, if HTC has earnings after the annual final accounting, it shall be allocated 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.

No employee bonus was estimated as the Company reported net loss for the three months ended March 31, 2014. The employee bonus for the three months ended March 31, 2013 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 appropriations of 2013 earnings are scheduled for approval in the board of directors' meeting on May 6, 2014. The appropriations of 2012 earnings were approved in the stockholders' meeting on June 21, 2013. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For 2013	For 2012	For 2013	For 2012
Legal reserve	\$ -	\$ 1,678,097	\$ -	\$ -
Special (reversal) reserve	(854,138)	854,138	-	-
Cash dividends	-	1,662,454	-	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 stockholders' meeting 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	<u>-</u>	
		<u>\$ 976,327</u>	<u>\$ 976,327</u>

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 and the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

Other Equity

	March 31, 2014	December 31, 2013	March 31, 2013
Exchange differences on translating foreign operations	\$ 1,154,385	\$ 559,719	\$ (302,729)
Unrealized losses on available-for-sale financial assets	<u>(2,052)</u>	<u>(2,021)</u>	<u>(2,088)</u>
	<u>\$ 1,152,333</u>	<u>\$ 557,698</u>	<u>\$ (304,817)</u>

a. Exchange differences on translating foreign operations

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

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

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

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 in November 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 and 1,912 thousand treasury stocks in 2014 February and 2013 September, respectively. The related information on the treasury stock transactions was as follows:

(In Thousands of Shares)

Reason to Reacquire	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
<u>Three months ended March 31, 2014</u>				
To transfer shares to the Company's employees	<u>18,913</u>	<u>-</u>	<u>1,999</u>	<u>16,914</u>
<u>Three months ended March 31, 2013</u>				
To transfer shares to the Company's employees	<u>20,825</u>	<u>-</u>	<u>-</u>	<u>20,825</u>

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

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

23. REVENUE

	Three Months Ended March 31	
	2014	2013
Sale of goods	\$ 31,894,867	\$ 42,251,735
Other operating income	<u>1,225,976</u>	<u>536,782</u>
	<u>\$ 33,120,843</u>	<u>\$ 42,788,517</u>

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT\$258,327 thousand of the gain on the hedging instrument that was determined to be the effective portion of the hedge to sales of goods for the three months ended March 31, 2013.

24. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

a. Other income

	Three Months Ended March 31	
	2014	2013
Interest income		
Cash in bank	\$ 62,173	\$ 68,907
Held-to-maturity financial assets	-	227
Loan	<u>-</u>	<u>90,501</u>
	62,173	159,635
Dividend income	3,680	10,005
Others	<u>41,109</u>	<u>88,668</u>
	<u>\$ 106,962</u>	<u>\$ 258,308</u>

b. Other gains and losses

	Three Months Ended March 31	
	2014	2013
Losses on disposal of property, plant and equipment	\$ (751)	\$ (1,558)
Gain on disposal of investments	-	29,735
Net foreign exchange losses	(27,012)	(293,419)
Valuation gains on financial assets classified as held for trading	97,386	228,702
Hedge ineffective portion on cash flow hedges	-	151,197
Impairment loss	-	(342,486)
Other losses	<u>(2,435)</u>	<u>(14,725)</u>
	<u>\$ 67,188</u>	<u>\$ (242,554)</u>

Gain or loss on financial assets and liabilities held for trading was made on forward exchange transactions. The Company entered into forward exchange transactions to manage exposures related to exchange rate fluctuations.

c. Impairment losses on financial assets

	Three Months Ended March 31	
	2014	2013
Trade receivables (included in operating expense)	\$ -	\$ 397,916
Other receivables (included in operating expense)	<u>-</u>	<u>177,900</u>
	<u>\$ -</u>	<u>\$ 575,816</u>

d. Depreciation and amortization

	Three Months Ended March 31	
	2014	2013
Property, plant and equipment	\$ 785,083	\$ 694,689
Intangible assets	<u>464,673</u>	<u>494,060</u>
	<u>\$ 1,249,756</u>	<u>\$ 1,188,749</u>
Classification of depreciation - by function		
Cost of revenues	427,266	356,944
Operating expenses	<u>357,817</u>	<u>337,745</u>
	<u>\$ 785,083</u>	<u>\$ 694,689</u>
Classification of amortization - by function		
Cost of revenues	\$ 2,407	\$ 917
Operating expenses	<u>462,266</u>	<u>493,143</u>
	<u>\$ 464,673</u>	<u>\$ 494,060</u>

e. Employee benefits expense

	Three Months Ended March 31	
	2014	2013
Post-employment benefits		
Defined contribution plans	\$ 180,810	\$ 173,749
Defined benefit plans (Note 21)	<u>1,715</u>	<u>325</u>
	182,525	174,074
Share-based payments		
Equity-settled share-based payments	48,670	-
Other employee benefits	<u>3,858,755</u>	<u>4,305,256</u>
Total employee benefits expense	<u>\$ 4,089,950</u>	<u>\$ 4,479,330</u>
Classification - by function		
Cost of revenues	\$ 1,439,258	\$ 1,459,820
Operating expenses	<u>2,650,692</u>	<u>3,019,510</u>
	<u>\$ 4,089,950</u>	<u>\$ 4,479,330</u>

f. Impairment losses on non-financial assets

	Three Months Ended March 31	
	2014	2013
Inventories (included in cost of revenues)	\$ 80,657	\$ 199,666
Goodwill (included in other gains and losses)	<u>-</u>	<u>342,486</u>
	<u>\$ 80,657</u>	<u>\$ 542,152</u>

25. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

	Three Months Ended March 31	
	2014	2013
Current tax		
In respect of the current period	\$ 60,752	\$ 126,682
In respect of the prior period	<u>82</u>	<u>61,952</u>
	<u>60,834</u>	<u>188,634</u>
Deferred income tax		
In respect of the current period	<u>(60,834)</u>	<u>(171,015)</u>
Income tax recognized in profit or loss	<u>\$ -</u>	<u>\$ 17,619</u>

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 expected to have significant effect on current and deferred tax assets and liabilities.

b. The imputation credit account (“ICA”) information as of March 31, 2014, December 31, 2013 and March 31, 2013, were as follows:

	March 31, 2014	December 31, 2013	March 31, 2013
Unappropriated earnings generated after			
January 1, 1998	<u>\$ 44,494,871</u>	<u>\$ 47,282,820</u>	<u>\$ 53,715,903</u>
Balance of ICA	<u>\$ 6,447,140</u>	<u>\$ 6,573,169</u>	<u>\$ 5,970,346</u>

Under Income Tax Act, for distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Company was based on the balance of the ICA as of the date of dividend distribution. The imputation credit allocated to shareholders is based on its balance as of the date of the dividend distribution. The estimated creditable ratio may change when the actual distribution of the imputation credit is made.

c. HTC’s income tax returns through 2010 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 and HTC I Investment Corporation for the years through 2012 have been examined and approved by the tax authorities.

26. (LOSS) EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>Three Months Ended March 31</u>	
	2014	2013
Basic (loss) earnings per share	<u>\$ (2.28)</u>	<u>\$ 0.10</u>
Diluted (loss) earnings per share	<u>\$ (2.28)</u>	<u>\$ 0.10</u>

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

Net (Loss) Profit for the Period

	<u>Three Months Ended March 31</u>	
	2014	2013
(Loss) profit for the period attributable to owners of the parent	<u>\$ (1,881,263)</u>	<u>\$ 85,126</u>

Shares

Unit: In Thousands of Shares

	<u>Three Months Ended March 31</u>	
	2014	2013
Weighted average number of ordinary shares used in computation of basic (loss) earnings per share	823,438	831,227
Effect of dilutive potential ordinary shares:		
Bonus issue to employees	<u> -</u>	<u> 22</u>
Weighted average number of ordinary shares used in the computation of diluted (loss) earnings per share	<u>823,438</u>	<u>831,249</u>

If the Company might 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 should be included in the weighted average number of outstanding shares used in the computation of diluted earnings per share, if the shares had a dilutive effect. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

27. SHARE-BASED PAYMENT ARRANGEMENTS

No additional employee share options were granted by the Company during the period. Information on granted employee share options was as follows:

	Three Months Ended March 31, 2014	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance, beginning of period	15,000	\$149
Options granted during the period	<u>-</u>	
Balance, end of period	<u>15,000</u>	
Options exercisable, end of period	<u>-</u>	
Weighted-average fair value of options granted per unit (NT\$)	<u>\$ -</u>	

28. CAPITAL RISK MANAGEMENT

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

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

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 held-to-maturity financial assets and financial assets measured at cost. Except as detailed in the following table, 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.

	March 31, 2014		December 31, 2013		March 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>						
Held-to-maturity investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,036</u>	<u>\$ 101,023</u>

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).

March 31, 2014

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	\$ <u> -</u>	\$ <u> 97,836</u>	\$ <u> -</u>	\$ <u> 97,836</u>
Available-for-sale financial assets				
Domestic listed stocks - equity investments	\$ <u> 208</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 208</u>

December 31, 2013

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

March 31, 2013

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	\$ <u> -</u>	\$ <u> 228,702</u>	\$ <u> -</u>	\$ <u> 228,702</u>
Available-for-sale financial assets				
Domestic listed stocks - equity investments	\$ <u> 173</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 173</u>

There were no transfers between Level 1 and 2 in the period.

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

	March 31, 2014	December 31, 2013	March 31, 2013
<u>Financial assets</u>			
FVTPL - Held for trading	\$ 97,386	\$ 162,297	\$ 228,702
Held-to-maturity investments	-	-	101,036
Loans and receivables (Note 1)	73,057,850	83,114,076	93,061,150
Available-for-sale financial assets (Note 2)	5,062,719	4,603,300	4,444,173
<u>Financial liabilities</u>			
Amortized cost (Note 3)	81,192,391	84,824,794	111,034,159

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 available-for-sale financial assets measured at cost.

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

Financial Risk Management Objectives and Policies

The Company's 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, 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 at the end of the reporting period please refer to Note 34.

Sensitivity analysis

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

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis 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 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 before income tax or equity, and the balances below would be negative.

	Profit or Loss (1)	Equity (2)
<u>Three months ended March 31, 2014</u>		
USD	\$ 68,057	\$ -
EUR	(17,543)	-
RMB	(31,196)	-
JPY	(1,396)	-
<u>Three months ended March 31, 2013</u>		
USD	188,796	-
EUR	3,995	-
RMB	(42,762)	-
JPY	10,147	-

- 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 March 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.

March 31, 2014

	Less Than 3 Months	3 to 12 Months	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Short-term borrowings	\$ 2,518,268	\$ -	\$ -
Note and trade payables	13,472,453	29,739,328	-
Other payables	12,551,610	22,378,149	-
Other current liabilities	72,565	93,799	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>264,494</u>
	<u>\$ 28,614,896</u>	<u>\$ 52,211,276</u>	<u>\$ 264,494</u>

December 31, 2013

	Less Than 3 Months	3 to 12 Months	Over 1 Year
<u>Non-derivative financial liabilities</u>			
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	<u>-</u>	<u>-</u>	<u>256,415</u>
	<u>\$ 27,976,388</u>	<u>\$ 56,591,991</u>	<u>\$ 256,415</u>

March 31, 2013

	Less Than 3 Months	3 to 12 Months	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 30,299,005	\$ 44,954,621	\$ -
Other payables	12,153,686	23,014,613	-
Other current liabilities	411,688	147,410	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>53,136</u>
	<u>\$ 42,864,379</u>	<u>\$ 68,116,644</u>	<u>\$ 53,136</u>

2) Bank credit limit

	March 31, 2014	December 31, 2013	March 31, 2013
Unsecured bank general credit limit			
Amount used	\$ 4,320,427	\$ 1,697,088	\$ 1,416,110
Amount unused	<u>39,662,768</u>	<u>45,647,802</u>	<u>45,719,077</u>
	<u>\$ 43,983,195</u>	<u>\$ 47,344,890</u>	<u>\$ 47,135,187</u>

30. RELATED-PARTY TRANSACTIONS

Transactions, account balances and revenue and expense between the Company and its subsidiaries, which were related parties of the Company, had been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties were as follows:

Operating Transactions

	Sales		Purchase	
	Three Months Ended March 31		Three Months Ended March 31	
	2014	2013	2014	2013
Other related parties - Employees' Welfare Committee	\$ 21,399	\$ 22,550	\$ -	\$ -
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	<u>5,989</u>	<u>6,172</u>	<u>4,228</u>	<u>40,264</u>
	<u>\$ 27,388</u>	<u>\$ 28,722</u>	<u>\$ 4,228</u>	<u>\$ 40,264</u>

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

	March 31, 2014	December 31, 2013	March 31, 2013
Other related parties - Employees' Welfare Committee	\$ 8,254	\$ -	\$ 23,497
Other related parties - other related parties' chairperson, also as its significant stockholder, is HTC's chairperson	<u>221</u>	<u>1,309</u>	<u>988</u>
	<u>\$ 8,475</u>	<u>\$ 1,309</u>	<u>\$ 24,485</u>

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

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

	March 31, 2014	December 31, 2013	March 31, 2013
Other related parties - other related parties' chairperson, also as its significant stockholder, is HTC's chairperson	<u>\$ -</u>	<u>\$ 8,303</u>	<u>\$ 8,444</u>

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

	March 31, 2014	December 31, 2013	March 31, 2013
Associates			
Principal	\$ -	\$ -	\$ 6,719,063
Interest receivables	<u>-</u>	<u>-</u>	<u>69,644</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,788,707</u>

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\$90,501 thousand for the three months ended March 31, 2013.

Compensation of Key Management Personnel

The remuneration of directors and other members of key management personnel for the three months ended March 31, 2014 and 2013 were as follows:

	<u>Three Months Ended March 31</u>	
	<u>2014</u>	<u>2013</u>
Short-term benefits	\$ 75,982	\$ 52,710
Post-employment benefits	1,027	1,054
Share-based payments	<u>10,253</u>	<u>-</u>
	<u>\$ 87,262</u>	<u>\$ 53,764</u>

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

Acquisition of Property, Plant and Equipment

	<u>Three Months Ended March 31</u>	
	<u>2014</u>	<u>2013</u>
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	<u>\$ -</u>	<u>\$ 3,238</u>

Other Related-party Transactions

- To enhance product diversity, the Company entered into a trademark and technology license agreement with associates. The royalty expense was NT\$68,310 thousand for the three months ended March 31, 2013. As of March 31, 2013 the amount of unpaid royalty was NT\$83,354 thousand.
- Other related parties provide business consulting service to the Company. The business consulting service fees were NT\$1,308 thousand for the three months ended March 31, 2013.

- 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\$1,302 thousand for the three months ended March 31, 2014 and 2013, each.

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 trust account, which is under other current financial assets, had amounted to NT\$2,361,852 thousand, NT\$2,359,041 thousand and NT\$3,656,057 thousand as of March 31, 2014, December 31, 2013 and March 31, 2013, respectively.

As of March 31, 2014, December 31, 2013 and March 31, 2013 the Company had provided time deposits of NT\$1,109 thousand, NT\$1,090 thousand and NT\$2,120 thousand had been classified as other current financial assets, respectively.

32. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

In June 2011, ICom filed a new complaint against the Company alleging patent infringement of patent owned by ICom 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. From May 2011 onwards, Nokia Corporation (“Nokia”) and the Company filed patent infringement actions against the other respectively in the U.S. International Trade Commission (“ITC”), U.S. District Court for the District of Delaware, German district courts, and English High Court. On February 8, 2014, the two companies reached a settlement that included the dismissal of all current lawsuits and a patent and technology collaboration agreement. The Company will make payments to Nokia and the collaboration will involve the Company’s LTE patent portfolio, further strengthening Nokia’s licensing offering. The companies will also explore future technology collaboration opportunities.
- c. In March 2008, Flashpoint Technology, Inc., a U.S. entity, sued the Company with 10 patents in the District Court of Delaware alleging the Company infringed its patents and seeking damage compensation. The Company filed re-exams and the district court case was stayed pending the result of the re-examination from U.S. Patent and Trademark Office in November 2009, and is still stayed.

In May 2010, Flashpoint filed the first ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. In November 2011, the ITC Committee issued its Final Determination and ruled that the Company does not infringe patents owned by Flashpoint.

In May 2012, Flashpoint filed another ITC investigation against the Company with ITC alleging that the Company infringed its patents and requested ITC to prevent the Company from importing to and selling devices in the United States. In September 2013, the ITC Administrative Law Judge made an Initial Determination that favors HTC on two of the three patents in suit. On the matter of the third patent, only two End-of-Life HTC device models are potentially impacted. In March 2014, the Committee made a final determination that there is no violation of section 337 by HTC and patents not infringed. This is now the second time that HTC has prevailed against FlashPoint.

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.

- d. 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. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On May 6, 2014, the Company's board of directors passed a resolution for sale of all interest on Primavera Capital (Cayman) Fund I L.P. which is under financial assets measured at cost - non-current to Partners Group Spring Access L.P. and Partners Group WCTPT EM 2011 L.P. Inc. (collectively, the "Buyer") for US\$68,963 thousand. Anticipated profit from this transaction before tax is approximately US\$2,000 thousand. According to the agreement, Buyer agrees to forward to the Company a half of profit of a subsequent sale if such sale is made or offered within one year after the closing.

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

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

	March 31, 2014		December 31, 2013		March 31, 2013	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>						
Monetary items						
USD	\$ 2,020,848	30.50	\$ 2,109,805	29.93	\$ 2,217,767	29.86
EUR	289,228	41.97	301,083	41.27	242,418	38.26
JPY	4,056,332	0.2963	3,089,002	0.2851	11,009,868	0.3175
RMB	1,193,009	4.91	884,849	4.94	1,811,975	4.81
Non-monetary items						
USD	143,040	30.50	130,415	29.93	125,407	29.86
Investments accounted for by the equity method						
USD	-	-	-	-	170,070	29.86
<u>Financial liabilities</u>						
Monetary items						
USD	1,860,297	30.50	1,856,825	29.93	2,789,016	29.86
EUR	246,960	41.97	257,486	41.27	261,633	38.26
JPY	5,789,979	0.2963	6,432,408	0.2851	13,607,172	0.3175
RMB	1,646,477	4.91	1,446,364	4.94	2,026,314	4.81

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. 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 January 1, 2014 - December 31, 2018	Authorization to use wireless technology, like GSM; royalty payment based on agreement. 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.

(Continued)

Contractor	Contract Term	Description
MOTOROLA, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents stated in the agreement. b. Any time when the Company is not using any of Motorola's intellectual properties.	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA standards patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 2004 to the expiry dates of these patents stated in the agreement.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

(Concluded)

35. SEGMENT INFORMATION

The Company is organized and managed as a single reportable business segment. The Company's operations are mainly in the research, design, manufacture and sale of smart mobile devices and the operating revenue is more than 90 percent of the total revenue.