HTC Corporation and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2013 and 2012 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
HTC Corporation

We have audited the accompanying consolidated balance sheets of HTC Corporation and its subsidiaries (collectively referred to as the "Company") as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2013, December 31, 2012 and January 1, 2012, and their consolidated financial performance and their consolidated cash flows for the years ended 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of HTC Corporation as of and for the years ended December 31, 2013 and 2012 on which we have issued an unqualified report.

February 28, 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 accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	December 31, 2013		December 31, 2012		January 1, 2012	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 53,298,941	31	$ 50,966,143	25	$ 62,026,758	24
Financial assets at fair value through profit or loss - current (Notes 7 and 32)	162,297	-	6,950	-	256,868	-
Available-for-sale financial assets - current (Notes 8 and 32)	-	-	37,902	-	736,031	-
Held-to-maturity financial assets - current (Notes 9 and 32)	-	-	101,459	-	-	-
Derivative financial assets for hedging - current (Notes 10 and 32)	-	-	204,519	-	-	-
Note and trade receivables, net (Notes 13 and 33)	23,371,172	14	41,253,826	20	64,719,791	25
Other receivables (Note 13)	2,137,653	1	1,524,269	1	1,947,665	1
Other receivables - related parties (Notes 13 and 33)	-	-	6,600,093	3	966	-
Current tax assets (Note 26)	238,085	-	61,532	-	263,116	-
Inventories (Note 14)	23,599,558	14	23,809,377	12	28,430,590	11
Prepayments (Note 15)	5,803,744	3	4,965,814	2	6,507,516	3
Other current financial assets (Notes 6, 12 and 34)	2,771,023	2	6,561,444	3	25,543,450	10
Other current assets	124,808	-	39,097	-	249,644	-
Total current assets	111,507,281	65	136,132,425	66	190,682,395	74
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 8 and 32)	239	-	197	-	279	-
Held-to-maturity financial assets - non-current (Notes 9 and 32)	-	-	-	-	204,597	-
Financial assets measured at cost - non-current (Notes 11 and 32)	4,603,061	2	4,304,907	2	3,408,654	1
Investments accounted for using equity method (Notes 16 and 33)	227,504	-	5,892,168	3	71,732	-
Property, plant and equipment (Notes 17 and 33)	25,561,399	15	25,990,766	12	21,715,633	9
Intangible assets (Note 18)	8,664,066	5	11,683,170	6	22,767,479	9
Deferred tax assets (Note 26)	8,665,235	5	8,689,842	4	6,319,978	3
Refundable deposits (Note 32)	352,894	-	190,142	-	185,306	-
Long-term receivables (Notes 13 and 30)	1,182,393	1	4,369,350	2	-	-
Prepaid pension cost - non-current (Note 22)	125,715	-	119,273	-	100,651	-
Other non-current assets (Note 15)	11,739,400	7	9,876,752	5	10,655,126	4
Total non-current assets	61,121,906	35	71,116,567	34	65,429,435	26
TOTAL	$ 172,629,187	100	$ 207,248,992	100	$ 256,111,830	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Note and trade payables (Notes 19 and 33)	$ 46,275,851	27	$ 73,618,197	36	$ 78,473,130	31
Other payables (Notes 20 and 33)	38,032,999	22	39,267,173	19	47,595,791	18
Current tax liabilities (Note 26)	1,040,128	1	2,713,373	1	10,570,682	4
Provisions - current (Note 21)	8,208,885	5	8,881,514	4	15,133,275	6
Other current liabilities (Note 20)	956,127	-	1,788,106	1	1,661,140	1
Total current liabilities	94,513,990	55	126,268,363	61	153,434,018	60
NON-CURRENT LIABILITIES						
Deferred tax liabilities (Note 26)	151,122	-	647,936	-	340,261	-
Guarantee deposits received (Note 32)	256,415	-	59,999	-	42,946	-
Total non-current liabilities	407,537	-	707,935	-	383,207	-
Total liabilities	94,921,527	55	126,976,298	61	153,817,225	60
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 23)						
Share capital - common stock	8,423,505	5	8,520,521	4	8,520,521	3
Capital surplus	15,360,307	9	16,601,557	8	16,601,557	7
Retained earnings						
Legal reserve	18,149,350	11	16,471,254	8	10,273,674	4
Special reserve	854,138	-	-	-	580,856	-
Accumulated earnings	47,282,820	27	53,630,777	26	75,687,478	30
Total retained earnings	66,286,308	38	70,102,031	34	86,542,008	34
Other equity	557,698	-	(885,925)	-	2,939	-
Treasury shares	(12,920,158)	(7)	(14,065,490)	(7)	(10,365,144)	(4)
Total equity attributable to owners of the parent	77,707,660	45	80,272,694	39	101,301,881	40
NON-CONTROLLING INTEREST	-	-	-	-	992,724	-
Total equity	77,707,660	45	80,272,694	39	102,294,605	40
TOTAL	$ 172,629,187	100	$ 207,248,992	100	$ 256,111,830	100

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
REVENUES (Notes 24 and 33)	$ 203,402,648	100	$ 289,020,175	100
COST OF REVENUES (Notes 14, 25 and 33)	161,131,895	79	216,089,326	75
GROSS PROFIT	42,270,753	21	72,930,849	25
OPERATING EXPENSES (Notes 25 and 33)				
Selling and marketing	26,467,742	13	32,382,563	11
General and administrative	7,230,081	4	6,227,833	2
Research and development	12,543,452	6	15,493,139	5
Total operating expenses	46,241,275	23	54,103,535	18
OPERATING (LOSS) PROFIT	(3,970,522)	(2)	18,827,314	7
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 25)	1,164,948	1	1,168,532	-
Other gain and loss (Note 25)	2,421,266	1	(923,544)	-
Finance costs	(8,405)	-	(1,715)	-
Share of the profit or loss of associates and joint ventures (Note 16)	197,069	-	387,478	-
Total non-operating income and expenses	3,774,878	2	630,751	-
(LOSS) PROFIT BEFORE INCOME TAX	(195,644)	-	19,458,065	7
INCOME TAX (Note 26)	1,128,141	1	1,836,272	1
(LOSS) PROFIT FOR THE YEAR	(1,323,785)	(1)	17,621,793	6
OTHER COMPREHENSIVE INCOME AND LOSS				
Exchange differences on translating foreign operations (Note 23)	1,649,412	1	(1,089,693)	-
Unrealized (loss) gain on available-for-sale financial assets (Note 23)	(11,738)	-	6,777	-
Cash flow hedge (Notes 10 and 23)	(194,052)	-	194,052	-
Actuarial losses arising from defined benefit plans (Note 22)	(17,106)	-	(5,382)	-
Income tax relating to the components of other comprehensive income (Notes 22 and 26)	1,794	-	915	-
Other comprehensive income and loss for the year, net of income tax	1,428,310	1	(893,331)	-

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 104,525	-	$ 16,728,462	6
ALLOCATIONS OF (LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$ (1,323,785)	(1)	$ 16,813,575	6
Non-controlling interest	-	-	808,218	-
	$ (1,323,785)	(1)	$ 17,621,793	6
ALLOCATIONS OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$ 104,525	-	$ 15,920,244	6
Non-controlling interest	-	-	808,218	-
	$ 104,525	-	$ 16,728,462	6
(LOSS) EARNINGS PER SHARE (Note 27)				
Basic	$ (1.60)		$ 20.21	
Diluted	$ (1.60)		$ 20.12	

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)

	Equity Attributable to Owners of the Parent											
			Retained Earnings			Other Equity						
	Share Capital Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Accumulated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedge	Treasury Shares	Total Equity Attributable to Owners of the Parent	Non-controlling Interest	Total Equity
BALANCE, JANUARY 1, 2012	$ 8,520,521	$ 16,601,557	$ 10,273,674	$ 580,856	$ 75,687,478	$ -	$ 2,939	$ -	$ (10,365,144)	$ 101,301,881	$ 992,724	$ 102,294,605
Appropriation of 2011 earnings												
Legal reserve	-	-	6,197,580	-	(6,197,580)	-	-	-	-	-	-	-
Special reserve reversed	-	-	-	(580,856)	580,856	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(33,249,085)	-	-	-	-	(33,249,085)	-	(33,249,085)
Profit for the year ended December 31, 2012	-	-	-	-	16,813,575	-	-	-	-	16,813,575	808,218	17,621,793
Other comprehensive income and loss for the year ended December 31, 2012	-	-	-	-	(4,467)	(1,089,693)	6,777	194,052	-	(893,331)	-	(893,331)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(3,700,346)	(3,700,346)	-	(3,700,346)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(1,800,942)	(1,800,942)
BALANCE, DECEMBER 31, 2012	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	-	80,272,694
Appropriation of 2012 earnings												
Legal reserve	-	-	1,678,096	-	(1,678,096)	-	-	-	-	-	-	-
Special reserve	-	-	-	854,138	(854,138)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,662,455)	-	-	-	-	(1,662,455)	-	(1,662,455)
Loss for the year ended December 31, 2013	-	-	-	-	(1,323,785)	-	-	-	-	(1,323,785)	-	(1,323,785)
Other comprehensive income and loss for the year ended December 31, 2013	-	-	-	-	(15,313)	1,649,412	(11,737)	(194,052)	-	1,428,310	-	1,428,310
Purchase of treasury shares	-	-	-	-	-	-	-	-	(1,033,846)	(1,033,846)	-	(1,033,846)
Retirement of treasury stock	(97,016)	(1,267,992)	-	-	(814,170)	-	-	-	2,179,178	-	-	-
Share-based payments	-	26,742	-	-	-	-	-	-	-	26,742	-	26,742
BALANCE, DECEMBER 31, 2013	$ 8,423,505	$ 15,360,307	$ 18,149,350	$ 854,138	$ 47,282,820	$ 559,719	$ (2,021)	$ -	$ (12,920,158)	$ 77,707,660	$ -	$ 77,707,660

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)

	For the Years Ended December 31	
	2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) profit before income tax	$ (195,644)	$ 19,458,065
Adjustments for:		
Depreciation	2,916,699	2,463,017
Amortization	1,968,492	2,047,681
Impairment loss recognized on trade receivables	1,010,405	531,364
Finance costs	8,405	1,715
Interest income	(554,355)	(617,635)
Dividend income	(16,282)	(22,441)
Compensation cost of employee share options	26,742	-
Share of the profit or loss of associates and joint ventures	(197,069)	(387,478)
Losses on disposal of property, plant and equipment	58	6,395
Transfer of property, plant and equipment to expenses	2,995	15,098
Gain on disposal of intangible assets	(108,265)	-
Gains on sale of investments	(29,735)	(49,084)
Gain on disposal of investments accounted for using equity method	(2,637,673)	-
Impairment loss recognized on financial assets measured at cost	-	1,199,045
Impairment losses on non-financial assets	1,281,518	2,268,727
(Gain) loss on disposal of subsidiaries/ Ineffective portion of cash flow hedges	(164,969)	203,801
Changes in operating assets and liabilities		
(Increase) decrease in financial instruments held for trading	(155,347)	249,918
Decrease in note and trade receivables	16,845,574	19,353,654
(Increase) decrease in other receivables	(607,949)	408,075
Decrease in other receivables - related parties	-	966
(Increase) decrease in inventories	(207,347)	552,981
Increase in prepayments	(1,360,194)	(1,412,046)
Increase in other current assets	(96,724)	(155,932)
(Increase) decrease in other non-current assets	(1,869,090)	719,233
(Decrease) increase in note and trade payables	(27,311,669)	216,687
Decrease in other payables	(427,233)	(6,540,051)
Decrease in provisions	(672,629)	(6,251,761)
(Decrease) increase in other current liabilities	(822,489)	303,102
Cash (used in) generated from operations	(13,373,775)	34,563,096
Interest received	599,071	589,899
Interest paid	(8,405)	(1,715)
Income tax paid	(3,448,352)	(11,553,271)
Net cash (used in) generated from operating activities	(16,231,461)	23,598,009

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2013	**2012**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	$ 56,738	$ 829,071
Recovery of the principal amount of held-to-maturity investments	100,000	-
Payments to acquire financial assets measured at cost	(197,684)	(2,292,573)
Disposal of long-term investments accounted for using equity method	7,883,326	-
Net cash outflow on acquisition of subsidiaries	-	(173,926)
Net cash inflow (outflow) on disposal of subsidiaries	4,643,189	(647,609)
Payments for property, plant and equipment	(2,855,698)	(6,646,776)
Proceeds from disposal of property, plant and equipment	2,609	38,813
Increase in refundable deposits	(166,428)	(13,718)
Increase in other receivables - related parties	-	(6,554,025)
Decrease in other receivables - related parties	6,554,025	-
Payments for intangible assets	(223,008)	(556,581)
Disposal of intangible assets	117,380	-
Decrease in other current financial assets	3,790,421	18,964,300
Dividend received	661,896	22,441
Net cash generated from investing activities	20,366,766	2,969,417
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in guarantee deposits received	196,416	17,053
Cash dividends	(1,662,455)	(33,249,085)
Payments for treasury shares	(1,033,846)	(3,700,346)
Change in non-controlling interest	-	(1,459,370)
Net cash used in financing activities	(2,499,885)	(38,391,748)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	697,378	763,707
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,332,798	(11,060,615)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	50,966,143	62,026,758
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 53,298,941	$ 50,966,143

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

1. ORGANIZATION AND OPERATIONS

HTC Corporation ("HTC") was incorporated on May 15, 1997 under the Company Law of the Republic of China to design, manufacture, assemble, process, and sell smart mobile devices and provide after-sales service.

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on February 28, 2014.

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

a. New, amended and revised standards and interpretations (the "New IFRSs") in issue but not yet effective

   HTC and its entire controlled subsidiaries (the "Company") have not applied the International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations, and Standing Interpretations that have been issued by the IASB. On January 28, 2014, the Financial Supervisory Commission (FSC) announced the framework for the adoption of updated IFRSs version in the ROC. Under this framework, starting January 1, 2015, the previous version of IFRSs endorsed by the FSC (the 2010 IFRSs version) currently applied by companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market will be replaced by the updated IFRSs without IFRS 9 (the 2013 IFRSs version). However, as of the date that the consolidated financial statements were authorized for issue, the FSC has not endorsed the following new, amended and revised standards and interpretations issued by the IASB (the "New IFRSs") included in the 2013 IFRSs version. Furthermore, the FSC has not announced the effective date for the following New IFRSs that are not included in the 2013 IFRSs version.

The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC	Effective Date Announced by IASB (Note 1)
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
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

The New IFRSs Not Included in the 2013 IFRSs Version	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
IFRS 9 “Financial Instruments”	Effective date not determined
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	Effective date not determined
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 the respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions for which the grant date is on or after 1 July 2014; the amendment to IFRS 3 applies to business combinations for which the acquisition date is on or after 1 July 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

b. Significant impending changes in accounting policy resulted from New IFRSs in issue but not yet effective

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

1) IFRS 9 "Financial Instruments"

<u>Recognition and measurement of financial assets</u>

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. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

<u>Recognition and measurement of financial liabilities</u>

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 Group presents all gains or losses on that liability in profit or loss.

<u>Hedge accounting</u>

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

Effective date

The mandatory effective date of IFRS 9, which was previously set at January 1, 2015, was removed and will be reconsidered once the standard is complete with a new impairment model and finalization of any limited amendments to classification and measurement.

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.

c. The impact of the application of New IFRSs and the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations") in issue but not yet effective on the Company's consolidated financial statements was as follows:

As of the date the consolidated financial statements were authorized for issue, the Company is continuingly assessing the possible impact that the application of the above New IFRSs will have on the Company's financial position and operating result, and will disclose the relevant impact when the assessment is complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On May 14, 2009, the FSC announced the "Framework for the Adoption of IFRSs by the Companies in the ROC." In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs approved by the FSC.

The Company's consolidated financial statements for the years ended December 31, 2013 is its first IFRS consolidated financial statements. The date of transition to IFRSs was January 1, 2012. Refer to Note 40 for the impact of IFRS conversion on the Company's consolidated financial statements.

Statement of Compliance

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

Basis of Preparation

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

The opening consolidated balance sheet as of the date of transition to IFRSs was prepared in accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards. The applicable IFRSs have been applied retrospectively by the Company except for some aspects where other IFRS 1 prohibits retrospective application or grants optional exemptions to this general principle. For the exemptions of the Company, please refer to Note 40.

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

Classification of Current and Non-current Assets and Liabilities

Current assets include:

a. Those assets held primarily for trading purposes;

b. Those assets to be realized within twelve months;

c. Cash and cash equivalents from the balance sheet date unless the asset is to be used for an exchange or to settle a liability, or otherwise remains restricted, at more than twelve months after the balance sheet date.

Current liabilities are:

a. Obligations incurred for trading purposes;

b. Obligations to be settled within twelve months from the balance sheet date;

c. An unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Aforementioned assets and liabilities that are not classified as current are classified as non-current.

Basis of Consolidation

a. Principles for preparing consolidated financial statements

   The consolidated financial statements incorporate the financial statements of HTC and entities controlled by HTC (its subsidiaries).

   Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

   When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Company.

   All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

   Attribution of total comprehensive income to non-controlling interests

   Total comprehensive income of subsidiaries is attributed to the owners of HTC and to the non-controlling interests even though the non-controlling interests have a debit balance due to the attribution.

Changes in the Company's ownership interests in existing subsidiaries

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the parent.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill), and liabilities of the former subsidiary and any non-controlling interests at their carrying amounts at the date when control is lost. If the Company loses control of a subsidiary, the Company accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

b. Subsidiaries included in consolidated financial statements

The consolidated entities as of December 31, 2013, December 31, 2012 and January 1, 2012 were as follows:

			% of Ownership			
Investor	**Investee**	**Main Businesses**	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**	**Remark**
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company	100.00	100.00	100.00	-
	Communication Global Certification Inc.	Telecom testing and certification 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	0.01	-
	Huada Digital Corporation	Software service	50.00	50.00	50.00	1)
	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	-	2)
H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	100.00	100.00	100.00	-
	Exedea Inc.	Distribution and sales	-	-	100.00	3) -
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.	Sale of smart mobile devices	100.00	100.00	100.00	-
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	99.99	99.99	99.99	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	100.00	-
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	100.00	100.00	-	4)

(Continued)

Investor	Investee	Main Businesses	% of Ownership December 31, 2013	December 31, 2012	January 1, 2012	Remark
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)	Repair and after-sales services	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	-
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company, marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	99.99	-
	HTC Belgium BVBA/SPRL	〃	100.00	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	100.00	-
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	99.33	-
	HTC Nordic ApS.	〃	100.00	100.00	100.00	-
	HTC Italia SRL	〃	100.00	100.00	100.00	-
	HTC Germany GmbH	〃	100.00	100.00	100.00	-
	HTC Iberia, S.L.	〃	100.00	100.00	100.00	-
	HTC Poland sp. z.o.o.	〃	100.00	100.00	100.00	-
	Saffron Media Group Ltd.	International holding company	-	100.00	100.00	5)
	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 Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	-	6)
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 handheld 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	-
	Beats Electronics, LLC	Design, research and development of audio technology	-	-	50.14	7)
	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	100.00	5)
	Saffron Digital Inc.	〃	-	100.00	100.00	5)

(Concluded)

Remark:

1) Huada Digital Corporation ("Huada") was incorporated in January 2010 and the Company changed in ownership percentage in October 2011. In March 2012, investment type change to joint venture and the Company lost significant influence.

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

3) Exedea Inc. was incorporated in December 2004, investment received in July 2005 and liquidated in December 2012.

4) Yoda Co., Ltd. was incorporated in September 2012.

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

6) HTC Middle East FZ-LLC was incorporated in September 2012.

7) The Company invested in Beats Electronics, LLC shares in October 2011 and lost its control of the subsidiary in July 2012 because of the partial disposal of its shares and thus accounted for this investment by equity method.

c. Subsidiaries excluded from consolidated financial statements: None

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date (i.e., the day when the Company obtains control) fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits respectively”, respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. Functional currency is the currency of the primary economic environment in which the entity operates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

a. Exchange differences on transactions entered into in order to hedge certain foreign currency risks (please refer to Note 4 “Hedge accounting” section); and

b. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Exchange differences arising on the retranslation of non-monetary assets (such as equity instruments) or liabilities measured at fair value are included in profit or loss for the period at the rates prevailing at the end of reporting period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of HTC are reclassified to profit or loss.

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

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income and accumulated in equity.

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

Investments in Associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

When the Company subscribes for its associate's newly issued shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments accounted for by the equity method, with a corresponding amount credited or charged to capital surplus. If additional subscription of the new shares of associate results in a decrease in the ownership interest, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of an associate equals or exceeds the Company's interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 "Financial Instruments: Recognition and Measurement" are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 "Impairment of Assets" to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which it ceases to have significant influence over the associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company' consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

Jointly controlled entities

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

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

Property, Plant and Equipment

Property, plant and equipment are tangible items that held for use in the production, supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used more than twelve months. Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal.

Intangible Assets

<u>Intangible assets acquired separately</u>

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss.

Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis which is in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

When an impairment loss subsequently is reversed, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis/settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a. Measurement category

Financial assets are classified into the following specified categories: Financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets ("AFS") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

1) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition when doing so results in more relevant information and if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

In addition, if a contract contains one or more embedded derivatives, the entire combined contract (asset or liability) can be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 32.

Investments in equity instruments under financial assets at FVTPL that do not have a listed market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. The financial assets are remeasured at fair value if they can be reliably measured at fair value in a subsequent period. The difference between the carrying amount and the fair value is recognized in profit or loss.

2) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity other than those that the entity upon initial recognition designates as at fair value through profit or loss, or designates as available for sale, or meet the definition of loans and receivables. Corporate bonds above specific credit ratings and the Company has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (i) loans and receivables, (ii) held-to-maturity investments or (iii) financial assets at FVTPL.

Fair value is determined in the manner described in Note 32.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency exchange rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss that previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Company’s right to receive the dividends is established.

AFS equity investments that do not have a listed market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. The financial assets are remeasured at fair value if they can be reliably measured at fair value in a subsequent period. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets.

4) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, cash and cash equivalent, other current financial assets, and other receivable) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

b. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

c. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

Financial liabilities

a. Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method, less any impairment (please refer to the stated above for the definition of effective interest method):

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition when doing so results in more relevant information and if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

In addition, if a contract contains one or more embedded derivatives, the entire combined contract (asset or liability) can be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 32.

b. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

<u>Derivative financial instruments</u>

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

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

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

Hedge Accounting

The Company designates certain hedging instruments, which include derivatives in respect of foreign currency risk as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Note 31 sets out details of the fair values of the derivative instruments used for hedging purposes.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When the forecast transaction is ultimately recognized in profit or loss, the associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss or are included in the initial cost of the non-financial asset or non-financial liability. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

a. Warranty provisions

   The Company provides warranty service for one year to two years. The warranty liability is estimated on the basis of evaluation of the products under warranty, past warranty experience, and pertinent factors.

b. Provisions for contingent loss on purchase orders

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

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- The amount of revenue can be measured reliably;

- It is probable that the economic benefits associated with the transaction will flow to the Company; and

- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

Specifically, sales of goods are recognized when goods are delivered and title has been passed.

Retirement Benefit Costs

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

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

The retirement benefit obligation recognized in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets.

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

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.’

Share-based Payment Arrangements

Share-based payment transactions of the Company

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company’s estimate of equity instruments that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the share options granted vest immediately.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Accrued Marketing Expenses

The Company accrues marketing expenses on the basis of agreements and any known factors that would significantly affect the accruals. In addition, depending on the nature of relevant events, the accrued marketing expenses are accounted for as an increase in marketing expenses or as a decrease in revenues.

Treasury Stock

When the Company acquires its outstanding shares that have not been disposed or retired, treasury stock is stated at cost and shown as a deduction in stockholders' equity. When treasury shares are sold, if the selling price is above the book value, the difference should be credited to the capital surplus - treasury stock transactions. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. The carrying value of treasury stock is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

a. Accrued marketing and advertising expenses

The Company recognizes sale of goods as the conditions are met. For information on the principles of revenue recognition, please refer to Note 4 “revenue recognition” section. The related marketing and advertising expenses recognized as reduction of sales amount or as current expenses are estimated on the basis of agreement, past experience and any known factors. The Company reviews the reasonableness of the estimation periodically.

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of accrued marketing and advertising expenses were NT$22,592,673 thousand, NT$20,872,536 thousand and NT$29,104,665 thousand, respectively.

b. Allowances for doubtful debts

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of allowances for doubtful debts were NT$3,050,907 thousand, NT$2,086,085 thousand and NT$1,555,008 thousand, respectively.

c. Impairment of tangible and intangible assets other than goodwill

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

The Company recognized impairment loss on tangible and intangible assets other than goodwill for NT$273,046 thousand and NT$1,255,732 thousand for the years ended December 31, 2013 and 2012, respectively.

d. Impairment of goodwill

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of goodwill were NT$174,253 thousand, NT$1,534,366 thousand and NT$10,812,564 thousand, after deduction of accumulated impairment losses of NT$700,531 thousand, NT$147,195 thousand and NT$93,314 thousand, respectively. The Company recognized an impairment loss on goodwill for NT$591,306 thousand and NT$57,621 thousand for the years ended December 31, 2013 and 2012, respectively.

e. Valuation of inventories

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

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of inventories were NT$23,599,558 thousand, NT$23,809,377 thousand and NT$28,430,590 thousand, respectively.

f. Realization of deferred tax assets

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of deferred tax assets were NT$8,665,235 thousand, NT$8,689,842 thousand and NT$6,319,978 thousand, respectively.

g. Estimates of warranty provision

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

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

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

As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of warranty provision were NT$7,376,035 thousand, NT$8,058,509 thousand and NT$13,080,394 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	$ 2,479	$ 15,433	$ 6,436
Checking accounts	15,209	12,134	9,709
Demand deposits	28,639,014	36,224,664	28,197,300
Time deposits (with original maturities less than three months)	24,642,239	14,713,912	33,813,313
	$ 53,298,941	$ 50,966,143	$ 62,026,758

Cash equivalents include time deposits that have a maturity of three months or less from the date of acquisition, are readily convertible to a known amount of cash, and are subject to an insignificant risk of change in value; these were held for the purpose of meeting short-term cash commitments.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Bank deposits	0.2%-0.85%	0.20%-1.05%	0.15%-1%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets held for trading			
Derivatives (not designated as hedging instruments)			
Exchange contracts	$ 162,297	$ 6,950	$ 256,868

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
December 31, 2013					
Foreign exchange contracts	Sell	EUR/USD	2014.01.02-2014.01.29	EUR	61,000
Foreign exchange contracts	Sell	JPY/USD	2014.03.31	JPY	3,755,090
Foreign exchange contracts	Sell	GBP/USD	2014.01.15-2014.01.22	GBP	12,000
Foreign exchange contracts	Sell	USD/NTD	2014.01.06-2014.02.05	USD	391,700
Foreign exchange contracts	Sell	CAD/USD	2014.01.13-2014.01.29	CAD	5,500
Foreign exchange contracts	Buy	USD/RMB	2014.01.08-2014.01.22	USD	100,600
Foreign exchange contracts	Buy	CAD/USD	2014.01.13	CAD	4,000
Foreign exchange contracts	Buy	RMB/USD	2014.01.08	RMB	11,000
Foreign exchange contracts	Buy	EUR/USD	2014.01.15-2014.01.22	EUR	18,000
Foreign exchange contracts	Buy	GBP/USD	2014.01.15-2014.01.22	GBP	2,000
December 31, 2012					
Foreign exchange contracts	Sell	EUR/USD	2013.01.11-2013.03.27	EUR	146,000
Foreign exchange contracts	Sell	GBP/USD	2013.01.09-2013.03.20	GBP	20,700
Foreign exchange contracts	Sell	USD/NTD	2013.01.17-2013.02.20	USD	70,000
Foreign exchange contracts	Sell	USD/RMB	2013.01.09-2013.01.30	USD	78,000
Foreign exchange contracts	Buy	USD/RMB	2013.01.09-2013.01.30	USD	106,000
Foreign exchange contracts	Buy	USD/JPY	2013.01.09-2013.03.08	USD	97,437
Foreign exchange contracts	Buy	USD/CAD	2013.01.09-2013.02.22	USD	22,158
Foreign exchange contracts	Buy	USD/NTD	2013.01.07-2013.02.21	USD	270,000
January 1, 2012					
Foreign exchange contracts	Buy	USD/CAD	2012.01.11-2012.02.22	USD	28,010
Foreign exchange contracts	Buy	USD/RMB	2012.01.04-2012.01.31	USD	105,000
Foreign exchange contracts	Sell	EUR/USD	2012.01.04-2012.03.30	EUR	339,000
Foreign exchange contracts	Sell	GBP/USD	2012.01.11-2012.02.22	GBP	17,100

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic investments			
Listed stocks	$ 239	$ 197	$ 279
Mutual funds	-	-	736,031
	239	197	736,310
Foreign investments			
Listed depositary receipts	-	37,902	-
	$ 239	$ 38,099	$ 736,310
Current	$ -	$ 37,902	$ 736,031
Non-current	239	197	279
	$ 239	$ 38,099	$ 736,310

9. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic investment			
Bonds	$ -	$ 101,459	$ 204,597
Current	$ -	$ 101,459	$ -
Non-current	-	-	204,597
	$ -	$ 101,459	$ 204,597

10. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31, 2013	December 31, 2012	January 1, 2012
Hedging derivative assets			
Cash flow hedge - forward exchange contracts	$ -	$ 204,519	$ -

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

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

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2012				
Foreign exchange contracts	Buy	USD/JPY	2013.03.28	USD 95,356

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

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

	For the Year Ended December 31	
	2013	2012
Revenues	$ 262,648	$ -
Other gains and losses	151,305	10,467
	$ 413,953	$ 10,467

11. FINANCIAL ASSETS MEASURED AT COST

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic unlisted equity investment	$ 698,861	$ 698,861	$ 698,861
Overseas unlisted equity investment	1,830,694	1,781,514	2,065,876
Overseas unlisted mutual funds	2,073,506	1,824,532	643,917
	$ 4,603,061	$ 4,304,907	$ 3,408,654
Classified according to financial asset measurement categories			
Available-for-sale financial assets	$ 4,603,061	$ 4,304,907	$ 3,408,654

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

The Company made a overseas unlisted equity investment in OnLive, Inc. In August 2012, OnLive, Inc. declared to have an asset restructuring due to the lack of operating cash and an inability to raise new capital. The Company assessed that its investment could not be recovered and thus recognized an impairment loss of NT$1,199,045 thousand.

12. OTHER CURRENT FINANCIAL ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Trust assets for employee benefit	$ 2,359,041	$ 3,645,820	$ -
Time deposits with original maturities more than three months	411,982	2,915,624	25,543,450
	$ 2,771,023	$ 6,561,444	$ 25,543,450

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.

The market interest rates of the time deposits with original maturity more than three months were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Time deposits with original maturities more than three months	2.45%-3.08%	0.39%-3.30%	0.39%-3.30%

For details of pledged other current financial assets, please refer to Note 34.

13. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31, 2013	December 31, 2012	January 1, 2012
Note and trade receivables			
Note receivables	$ -	$ -	$ 755,450
Trade receivables	26,420,770	43,118,861	65,518,876
Trade receivables - related parties	1,309	221,050	473
Less: Allowances for doubtful debts	(3,050,907)	(2,086,085)	(1,555,008)
	$ 23,371,172	$ 41,253,826	$ 64,719,791
Other receivables			
Loan receivables - fluctuation rate	$ -	$ 6,554,025	$ -
Receivables from disposal of investments	1,182,393	4,369,350	-
VAT refund receivables	355,442	391,276	792,364
Interest receivables	10,878	54,135	23,261
Others	1,771,333	1,124,926	1,133,006
	$ 3,320,046	$ 12,493,712	$ 1,948,631
Current - other receivables	$ 2,137,653	$ 8,124,362	$ 1,948,631
Non-current - other receivables	1,182,393	4,369,350	-
	$ 3,320,046	$ 12,493,712	$ 1,948,631

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

	December 31, 2013	December 31, 2012	January 1, 2012
1-90 days	$ 3,714,226	$ 7,700,143	$ 15,528,464
91-180 days	1,468,049	1,092,164	1,994,283
Over 181 days	803,422	5,651	74,014
	$ 5,985,697	$ 8,797,958	$ 17,596,761

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

	Year Ended December 31	
	2013	2012
Balance, beginning of the year	$ 2,086,085	$ 1,555,008
Impairment losses recognized on receivables	1,010,405	531,364
Amounts written off during the year	(13,943)	(401)
Disposal of subsidiary	(32,453)	-
Translation adjustment	813	114
Balance, end of the year	$ 3,050,907	$ 2,086,085

Other Receivables

Loan receivables - fluctuation rate is the short-term loan to Beats Electronics, LLC. For more details, please refer to Note 33.

Receivable from disposal of investments is the amount of sale of shares of Saffron Media Group Ltd. For more details, please refer to Note 30.

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

14. INVENTORIES

	December 31, 2013	December 31, 2012	January 1, 2012
Finished goods	$ 3,487,921	$ 2,275,082	$ 1,471,690
Work-in-process	521,423	1,902,733	4,320,763
Semi-finished goods	8,244,216	4,960,060	4,382,760
Raw materials	11,074,773	14,374,714	18,134,048
Inventory in transit	271,225	296,788	121,329
	$ 23,599,558	$ 23,809,377	$ 28,430,590

The losses on inventories decline amounting to NT$417,166 thousand and NT$2,154,419 thousand were recognized as cost of revenues for the years ended December 31, 2013 and 2012, respectively.

15. PREPAYMENTS

	December 31, 2013	December 31, 2012	January 1, 2012
Royalty	$ 12,007,756	$ 9,936,609	$ 12,521,985
Prepayments to suppliers	2,492,197	2,976,231	3,256,082
Net input VAT	1,918,462	434,521	320,544
Molding expenses	304,411	96,859	188,242
Prepaid equipment	194,200	232,011	207,061
Software and hardware maintenance	139,958	716,695	311,416
Land use right	138,376	134,074	139,707
Service	113,661	171,440	55,192
Others	234,123	144,126	162,413
	$ 17,543,144	$ 14,842,566	$ 17,162,642
Current	$ 5,803,744	$ 4,965,814	$ 6,507,516
Non-current	11,739,400	9,876,752	10,655,126
	$ 17,543,144	$ 14,842,566	$ 17,162,642

Prepayments for royalty were primarily for getting royalty right and were classified as current or non-current in accordance with their nature. For details of content of contracts, please refer to Note 38.

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

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31, 2013	December 31, 2012	January 1, 2012
Investment in subsidiaries	$ -	$ 5,650,859	$ 71,732
Investment in jointly controlled entity	227,504	241,309	-
	$ 227,504	$ 5,892,168	$ 71,732

Investments in Subsidiaries

	December 31, 2013	December 31, 2012	January 1, 2012
Unlisted equity investments			
Beats Electronics, LLC	$ -	$ 5,650,859	$ -
SYNCTV Corporation	-	-	71,732
	$ -	$ 5,650,859	$ 71,732

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

	December 31, 2013	December 31, 2012	January 1, 2012
Beats Electronics, LLC			
Ownership	-	25.14%	50.14%
Voting right	-	25.57%	51.00%
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. For details of transaction, please refer to Note 30. 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	39,884
Gain recognized	$ 2,637,673

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

	For the Year Ended December 31	
	2013	2012
Unrecognized share of losses of associates		
For the period	$ 9,455	$ 3,606
Accumulated	$ 13,061	$ 3,606

Investments accounted for using the equity method and the share of net income or loss and other comprehensive income from investments are accounted for based on the audited financial statements except for SYNCTV Corporation. The Company's management considers the use of unaudited financial statements of the investee did not have material impact on its consolidated financial statements.

Investments in Jointly Controlled Entity

	December 31, 2013	December 31, 2012	January 1, 2012
Unlisted equity investments			
Huada Digital Corporation	$ 227,504	$ 241,309	$ -

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

Company Name	December 31, 2013	December 31, 2012	January 1, 2012
Huada Digital Corporation	50.00%	50.00%	50.00%

In December 2009, the Company acquired 100% equity interest in Huada, whose main business is software services, for NT$245,000 thousand and accounted for this investment by the equity method. In September 2011, the Company increased its investment by NT$5,000 thousand. As of December 31, 2012, the Company's investment in Huada had amounted to NT$250,000 thousand. In September 2011, the Fair Trade Commission approved an investment by Chunghwa Telecom Co., Ltd. ("CHT") in Huada and the registration of this investment was completed in October 2011. After CHT's investment, the Company's ownership percentage declined from 100% to 50%. 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 audited financial statements.

17. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2013	December 31, 2012	January 1, 2012
Carrying amounts			
Land	$ 7,623,287	$ 7,615,546	$ 7,614,167
Buildings	10,507,548	10,542,019	5,029,932
Property in construction	145	-	1,923,876
Machinery and equipment	5,761,926	6,327,723	5,907,321
Other equipment	1,668,493	1,505,478	1,240,337
	$ 25,561,399	$ 25,990,766	$ 21,715,633

Movement of property, plant and equipment for the years ended December 31, 2013 and 2012 were as follows:

	2013					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$ 7,615,546	$ 11,851,900	$ -	$ 13,310,647	$ 2,787,808	$ 35,565,901
Additions	-	252,735	6,683	1,178,694	797,615	2,235,727
Disposal	-	(5,995)	-	(138,393)	(102,601)	(246,989)
Reclassification	-	5,275	(4,958)	(88,006)	87,689	-
Transfer to expense	-	-	(1,581)	-	(1,436)	(3,017)
Translation adjustment	7,741	125,676	1	217,970	87,336	438,724
Disposal of subsidiaries	-	-	-	-	(91,527)	(91,527)
Balance, end of the year	7,623,287	12,229,591	145	14,480,912	3,564,884	37,898,819
Accumulated depreciation						
Balance, beginning of the year	-	1,309,881	-	6,982,924	1,282,330	9,575,135
Depreciation expenses	-	399,036	-	1,824,620	693,043	2,916,699
Disposal	-	(5,995)	-	(138,219)	(100,108)	(244,322)
Reclassification	-	11,434	-	(35,096)	23,662	-
Transfer to expense	-	-	-	-	(22)	(22)
Translation adjustment	-	7,687	-	84,757	36,720	129,164
Disposal of subsidiaries	-	-	-	-	(39,234)	(39,234)
Balance, end of the year	-	1,722,043	-	8,718,986	1,896,391	12,337,420
Net book value, end of the year	$ 7,623,287	$ 10,507,548	$ 145	$ 5,761,926	$ 1,668,493	$ 25,561,399

	2012					
	Land	Buildings	Property in Construction	Machinery and Equipment	Other Equipment	Total
Cost						
Balance, beginning of the year	$ 7,614,167	$ 6,047,519	$ 1,923,876	$ 11,470,702	$ 2,040,507	$ 29,096,771
Additions	208	226,585	3,916,745	2,110,556	1,027,021	7,281,115
Disposal	-	(468)	-	(202,421)	(72,126)	(275,015)
Reclassification	-	5,615,958	(5,834,709)	-	115	(218,636)
Transfer to expense	-	-	(5,912)	(2,520)	(6,666)	(15,098)
Translation adjustment	1,171	(37,694)	-	(65,670)	(20,807)	(123,000)
Disposal of subsidiaries	-	-	-	-	(180,236)	(180,236)
Balance, end of the year	7,615,546	11,851,900	-	13,310,647	2,787,808	35,565,901
Accumulated depreciation						
Balance, beginning of the year	-	1,017,587	-	5,563,381	800,170	7,381,138
Depreciation expenses	-	307,379	-	1,620,750	534,888	2,463,017
Disposal	-	(449)	-	(173,298)	(55,984)	(229,731)
Translation adjustment	-	(14,636)	-	(27,909)	13,964	(28,581)
Disposal of subsidiaries	-	-	-	-	(10,708)	(10,708)
Balance, end of the year	-	1,309,881	-	6,982,924	1,282,330	9,575,135
Net book value, end of the year	$ 7,615,546	$ 10,542,019	$ -	$ 6,327,723	$ 1,505,478	$ 25,990,766

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

Building	5-50 years
Machinery and equipment	3-6 years
Other equipment	3-5 years

The major component parts of the buildings held by the Company included plants, electro-powering machinery and engineering systems, etc., which were depreciated over their estimated useful lives of 40 to 50 years, 20 years and 5 to 10 years, respectively.

There were no interests capitalized for the years ended December 31, 2013 and 2012.

18. INTANGIBLE ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Carrying amounts			
Patents	$ 7,668,901	$ 9,180,674	$ 11,152,098
Goodwill	174,253	1,534,366	10,812,564
Other intangible assets	820,912	968,130	802,817
	$ 8,664,066	$ 11,683,170	$ 22,767,479

Movements of intangible assets for the years ended December 31, 2013 and 2012 were as follows:

	2013			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of the year	$ 11,239,554	$ 1,681,561	$ 1,603,108	$ 14,524,223
Additions				
Acquisition	22,213	-	200,795	223,008
Transfer from prepayment	-	-	509,710	509,710
Disposal	(6,778)	-	(24,709)	(31,487)
Adjustment in acquisition of a subsidiary	-	(67,690)	(39,966)	(107,656)
Disposal of subsidiaries	-	(785,338)	(608,519)	(1,393,857)
Translation adjustment	241,501	46,251	49,013	336,765
Balance, end of the year	11,496,490	874,784	1,689,432	14,060,706
Accumulated amortization				
Balance, beginning of the year	2,058,880	-	634,978	2,693,858
Amortization expenses	1,618,246	-	350,246	1,968,492
Disposal	-	-	(22,372)	(22,372)
Disposal of subsidiaries	-	-	(283,487)	(283,487)
Translation adjustment	39,378	-	26,314	65,692
Balance, end of the year	3,716,504	-	705,679	4,422,183

(Continued)

	2013			
	Patents	Goodwill	Other Intangible Assets	Total
Accumulated impairment				
Balance, beginning of the year	$ -	$ 147,195	$ -	$ 147,195
Impairment losses	111,085	591,306	161,961	864,352
Disposal of subsidiaries	-	(45,017)	-	(45,017)
Translation adjustment	-	7,047	880	7,927
Balance, end of the year	111,085	700,531	162,841	974,457
Net book value, end of the year	$ 7,668,901	$ 174,253	$ 820,912	$ 8,664,066

(Concluded)

	2012			
	Patents	Goodwill	Other Intangible Assets	Total
Cost				
Balance, beginning of the year	$ 11,608,540	$ 10,905,878	$ 1,203,368	$ 23,717,786
Additions				
Acquisition	11,464	-	545,117	556,581
Difference between the cost of investments and the Company's share in investees' net assets	-	45,017	-	45,017
Adjustments of acquisition cost	-	(26,226)	-	(26,226)
Reclassification	-	(5,717,960)	5,717,960	-
Disposal	-	-	(64,719)	(64,719)
Disposal of subsidiaries	(35,323)	(3,485,380)	(5,713,752)	(9,234,455)
Translation adjustment	(345,127)	(39,768)	(84,866)	(469,761)
Balance, end of the year	11,239,554	1,681,561	1,603,108	14,524,223
Accumulated amortization				
Balance, beginning of the year	456,442	-	400,551	856,993
Amortization expenses	1,625,124	-	422,557	2,047,681
Disposal	-	-	(64,719)	(64,719)
Disposal of subsidiaries	(1,893)	-	(115,699)	(117,592)
Translation adjustment	(20,793)	-	(7,712)	(28,505)
Balance, end of the year	2,058,880	-	634,978	2,693,858
Accumulated impairment				
Balance, beginning of the year	-	93,314	-	93,314
Impairment losses	-	57,621	-	57,621
Translation adjustment	-	(3,740)	-	(3,740)
Balance, end of the year	-	147,195	-	147,195
Net book value, end of the year	$ 9,180,674	$ 1,534,366	$ 968,130	$ 11,683,170

The Company owns patents of graphics technologies. As of December 31, 2013, December 31, 2012 and January 1, 2012, the carrying amounts of such patents were NT$6,641,606 thousand, NT$7,555,334 thousand and NT$9,008,002 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

19. NOTE AND TRADE PAYABLES

	December 31, 2013	December 31, 2012	January 1, 2012
Note payables	$ 1,355	$ 294	$ 3,779
Trade payables	46,266,193	73,598,634	78,469,351
Trade payables - related parties	8,303	19,269	-
	$ 46,275,851	$ 73,618,197	$ 78,473,130

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.

20. OTHER LIABILITIES

	December 31, 2013	December 31, 2012	January 1, 2012
Other payables			
Accrued expenses	$ 36,999,785	$ 37,469,944	$ 46,270,611
Payables for purchase of equipment	815,774	1,471,529	812,240
Others	217,440	325,700	512,940
	$ 38,032,999	$ 39,267,173	$ 47,595,791
Other current liabilities			
Advance receipts	$ 529,470	$ 637,657	$ 574,596
Agency receipts	259,529	301,868	440,862
Others	167,128	848,581	645,682
	$ 956,127	$ 1,788,106	$ 1,661,140

Accrued Expenses

	December 31, 2013	December 31, 2012	January 1, 2012
Marketing	$ 22,592,673	$ 20,872,536	$ 29,104,665
Salaries and bonuses	5,757,389	5,712,741	3,532,970
Bonus to employees	3,278,053	5,712,075	7,238,637
Services	1,780,205	1,020,609	1,324,631
Materials and molding expenses	1,650,934	1,904,181	1,854,932
Import, export and freight	647,588	644,432	1,397,747
Repairs, maintenance and sundry purchase	237,463	573,355	466,135
Others	1,055,480	1,030,015	1,350,894
	$ 36,999,785	$ 37,469,944	$ 46,270,611

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

Other Payables - Others

Other payables - others were payables for patents, and agreed installments payable to the original stockholders of subsidiaries.

21. PROVISIONS

	December 31, 2013	December 31, 2012	January 1, 2012
Warranty provision	$ 7,376,035	$ 8,058,509	$ 13,080,394
Provisions for contingent loss on purchase orders	832,850	823,005	2,052,881
	$ 8,208,885	$ 8,881,514	$ 15,133,275

Movement of provisions for the years ended December 31, 2013 and 2012 were as follows:

	2013		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$ 8,058,509	$ 823,005	$ 8,881,514
Provisions recognized	13,945,001	359,350	14,304,351
Amount utilized during the year	(14,789,263)	(349,505)	(15,138,768)
Translation adjustment	161,788	-	161,788
Balance, end of the year	$ 7,376,035	$ 832,850	$ 8,208,885

	2012		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$ 13,080,394	$ 2,052,881	$ 15,133,275
Provisions recognized	10,363,279	-	10,363,279
Reversing un-usage balances	-	(751,363)	(751,363)
Amount utilized during the year	(15,156,357)	(478,513)	(15,634,870)
Translation adjustment	(228,807)	-	(228,807)
Balance, end of the year	$ 8,058,509	$ 823,005	$ 8,881,514

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.

22. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

The pension plan under the Labor Pension Act (the “LPA”) is a defined contribution plan. Based on the LPA, HTC and Communication Global Certification Inc. (“CGC”) make monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

The Company has defined contribution retirement benefit plans for all qualified employees of HTC and CGC in Taiwan. Besides, the employees of the Company’s subsidiary are members of a state-managed retirement benefit plan operated by local government. The subsidiary is required to contribute amounts calculated at a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit plan is to make the specified contributions to the fund.

The total expenses recognized in the consolidated statement of comprehensive income were NT$786,658 thousand and NT$665,765 thousand, representing the contributions payable to these plans by the Company at the rates specified in the plans for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, December 31, 2012 and January 1, 2012, the amounts of contributions payable were NT$109,323 thousand, NT$119,833 thousand and NT$123,877 thousand, respectively, the amounts were paid subsequent to the end of the reporting period.

Defined Benefit Plans

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Discount rates	1.625%-1.875%	1.250%-1.625%	1.500%-1.750%
Expected return on plan assets	2.000%	1.875%	2.000%
Expected rates of salary increase	2.250%- 4.000%	2.250%-4.000%	2.250%-4.000%

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

	For the Year Ended December 31	
	2013	2012
Current service cost	$ 4,599	$ 5,600
Interest cost	6,408	6,684
Expected return on plan assets	(9,885)	(9,918)
	$ 1,122	$ 2,366
Operating cost	$ 301	$ 644
Selling and marketing	89	717
General and administrative	126	262
Research and development	606	743
	$ 1,122	$ 2,366

The amounts of actuarial losses recognized in other comprehensive income were NT$17,106 thousand and NT$5,382 thousand for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, the amounts of actuarial losses recognized in accumulated other comprehensive income were NT$22,488 thousand and NT$5,382 thousand, respectively.

The amounts included in the consolidated balance sheets in respect of the obligation on HTC and CGC under the defined benefit plans were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded defined benefit obligation	$ (413,220)	$ (394,681)	$ (382,134)
Fair value of plan assets	538,935	513,954	482,785
Defined benefit assets	$ 125,715	$ 119,273	$ 100,651

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

	For the Year Ended December 31	
	2013	2012
Opening defined benefit obligation	$ 394,681	$ 382,134
Current service cost	4,599	5,601
Interest cost	6,408	6,684
Actuarial losses	13,851	262
Benefits paid	(6,319)	-
Closing defined benefit obligation	$ 413,220	$ 394,681

Movements in the present value of the plan assets in the current year were as follows:

	For the Year Ended December 31	
	2013	2012
Opening fair value of plan assets	$ 513,954	$ 482,786
Expected return on plan assets	9,885	9,918
Actuarial losses	(3,255)	(5,120)
Contributions from the employer	24,670	26,370
Benefits paid	(6,319)	-
Closing fair value of plan assets	$ 538,935	$ 513,954

The major categories of plan assets at the end of the reporting period for each category were disclosed based on the information announced by Labor Pension Fund Supervisory Committee.:

	December 31, 2013	December 31, 2012	January 1, 2012
Equity instruments	44.77%	37.43%	40.75%
Debt instruments	54.44%	61.78%	59.12%
Others	0.79%	0.79%	0.13%
	100.00%	100.00%	100.00%

The expected overall rate of return is the weighted average of the expected returns of the various categories of plan assets held. The Actuary's assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation, after taking into account the minimum return rate which no lower than the interest rate for two-years' time deposit.

The Company expects to make a contribution of NT$22,944 thousand to the defined benefit pension plan within one year from December 31, 2013.

23. EQUITY

Share Capital

a. Common stock

	December 31, 2013	December 31, 2012	January 1, 2012
Authorized shares (in thousands of shares)	1,000,000	1,000,000	1,000,000
Authorized capital	$ 10,000,000	$ 10,000,000	$ 10,000,000
Issued and fully paid shares (in thousands of shares)	842,351	852,052	852,052
Issued capital	$ 8,423,505	$ 8,520,521	$ 8,520,521

Fully paid ordinary shares, which have a par value of $10, carry one vote per share and carry 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 December 31, 2013, there were 8,289.9 thousand units of GDRs redeemed, representing 33,159.8 thousand common shares, and the outstanding GDRs represented 2,900.7 thousand common shares or 0.35% of HTC's outstanding common shares.

Capital Surplus

	December 31, 2013	December 31, 2012	January 1, 2012
Additional paid-in capital - issuance of shares in excess of par	$ 14,640,983	$ 14,809,608	$ 14,809,608
Treasury shares	631,791	1,730,458	1,730,458
Merger	24,145	24,423	24,423
Employee share options	26,742	-	-
Expired stock options	36,646	37,068	37,068
	$ 15,360,307	$ 16,601,557	$ 16,601,557

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.

Retained Earnings and Dividend Policy

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

a. To pay taxes.

b. To cover accumulated losses, if any.

c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of HTC's authorized capital.

d. To recognize or reverse special reserve return earnings.

e. To pay remuneration to directors and supervisors at 0.3% maximum of the balance after deducting the amounts under the above items (a) to (d).

f. To pay bonus to employees at 5% minimum of the balance after deducting the amounts under the above items (a) to (d), or such balance plus the unappropriated retained earnings of previous years. However, the bonus may not exceed the limits on employee bonus distributions as set out in the Regulations Governing the Offering and Issuance of Securities by Issuers. Where bonus to employees is allocated by means of new share issuance, the employees to receive bonus may include the affiliates' employees who meet specific requirements prescribed by the board of directors.

g. For any remainder, the board of directors should propose allocation ratios based on the dividend policy set forth in HTC's Articles and propose them at the stockholders' meeting.

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

No employee bonus was estimated as the Company reported net loss for the year ended December 31, 2013. The employee bonus for 2012 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.

Under Rule No. 100116 and Rule No. 0950000507 issued by the FSC, an amount equal to the net debit balance of certain shareholders' equity accounts shall be transferred from unappropriated earnings to a special reserve before any appropriation of earnings generated before January 1, 2012 shall be made. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Under Rule No. 1010012865 issued by the FSC on April 6, 2012 and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", on the first-time adoption of IFRSs, a company should appropriate to a special reserve of an amount that was the same as these of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the company's use of exemptions under IFRS 1. The Company had a decrease in retained earnings that resulted from all IFRSs adjustments; therefore, no special reserve was appropriated.

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 earnings for 2012 and 2011 had been approved in the shareholders' meetings on June 21, 2013 and June 12, 2012, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For 2012	**For 2011**	**For 2012**	**For 2011**
Legal reserve	$ 1,678,097	$ 6,197,580	$ -	$ -
Special reserve (reversal)	854,138	(580,856)	-	-
Cash dividends	1,662,454	33,249,085	2	40
Stock dividends	-	-	-	-

The bonus to employees for 2012 and 2011 approved in the shareholders' meetings on June 21, 2013 and June 12, 2012, respectively, were as follows:

		Amounts Approved in Shareholders' Meetings	Amounts Recognized in Financial Statements
For 2012	Cash	$ 976,327	
	Stock	-	
		$ 976,327	$ 976,327
For 2011	Cash	$ 7,238,637	
	Stock	-	
		$ 7,238,637	$ 7,238,637

The approved amounts of bonus to employees were the same as the accrual amounts recognized in the financial statements for 2012 and 2011, respectively.

The appropriations of earnings for 2012 were proposed according to HTC's financial statements for the year ended December 31, 2012, which were prepared in accordance with the pre-amended Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China, and by reference to the balance sheet for the year ended December 31, 2012, which was prepared in accordance with the amended Guidelines Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Exchange differences on translating foreign operations	$ 559,719	$ (1,089,693)	$ -
Unrealized (loss) gains on available-for-sale financial assets	(2,021)	9,716	2,939
Cash flow hedge	-	194,052	-
	$ 557,698	$ (885,925)	$ 2,939

a. Exchange differences on translating foreign operations

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

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

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

c. Cash flow hedge

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

Non-controlling Interest

	Year Ended December 31	
	2013	**2012**
Balance, beginning of period	$ -	$ 992,724
Share of profit attributable to non-controlling interests	-	808,218
Decrease in non-controlling interest due to losing control of subsidiary	-	(1,648,909)
Non-controlling interest relating to outstanding vested share options held by the employees of subsidiaries	-	(152,033)
Balance, end of period	$ -	$ -

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 1,912 thousand treasury stocks on September 27, 2013. The related information on the treasury stock transactions was as follows:

(In Thousands of Shares)

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

(Continued)

Reason to Reacquire	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
For 2012				
To transfer shares to the Company's employees	14,011	6,814	-	20,825

(Concluded)

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.

24. REVENUE

	For the Year Ended December 31	
	2013	2012
Sale of goods	$ 200,208,038	$ 282,914,686
Other operating income	3,194,610	6,105,489
	$ 203,402,648	$ 289,020,175

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT$262,648 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 year ended December 31, 2013.

For the analysis of main products and other revenue, please refer to Note 39.

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

a. Other income

	For the Year Ended December 31	
	2013	2012
Interest income		
Cash in bank	$ 342,422	$ 533,898
Held-to-maturity financial assets	794	1,710
Loan	211,139	82,027
	554,355	617,635
Dividend income	16,282	22,441
Others	594,311	528,456
	$ 1,164,948	$ 1,168,532

b. Other gains and losses

	For the Year Ended December 31	
	2013	2012
Losses on disposal of property, plant and equipment	$ (58)	$ (6,395)
Gain on disposal of intangible assets	108,265	-
Gains on sale of available-for-sale financial assets	29,735	49,084
Gain on disposal of investments accounted for using equity method	2,637,673	-
Gain (loss) on disposal of subsidiaries	175,435	(214,268)
Net foreign exchange gains	109,960	666,883
Valuation gains on financial liabilities classified as held for trading	162,297	6,950
Hedge ineffective portion on cash flow hedges	151,305	10,467
Impairment loss	(864,352)	(1,313,353)
Other losses	(88,994)	(122,912)
	$ 2,421,266	$ (923,544)

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

c. Impairment losses on financial assets

	For the Year Ended December 31	
	2013	2012
Trade receivables (included in operating expense)	$ 1,010,405	$ 531,364
Financial assets measured at cost (included in other gains and losses)	-	1,199,045
	$ 1,010,405	$ 1,730,409

d. Depreciation and amortization

	For the Year Ended December 31	
	2013	2012
Property, plant and equipment	$ 2,916,699	$ 2,463,017
Intangible assets	1,968,492	2,047,681
	$ 4,885,191	$ 4,510,698
Classification of depreciation - by function		
Cost of revenues	$ 1,538,825	$ 1,322,730
Operating expenses	1,377,874	1,140,287
	$ 2,916,699	$ 2,463,017
Classification of amortization - by function		
Cost of revenues	$ 6,841	$ 6,833
Operating expenses	1,961,651	2,040,848
	$ 1,968,492	$ 2,047,681

e. Employee benefits expense

	For the Year Ended December 31	
	2013	2012
Post-employment benefits (Note 22)		
Defined contribution plans	$ 786,658	$ 665,765
Defined benefit plans	1,122	2,366
	787,780	668,131
Share-based payments		
Equity-settled share-based payments	26,742	-
Other employee benefits	17,517,784	21,055,551
Total employee benefits expense	$ 18,332,306	$ 21,723,682
Classification - by function		
Cost of revenues	$ 6,539,452	$ 6,241,376
Operating expenses	11,792,854	15,482,306
	$ 18,332,306	$ 21,723,682

f. Impairment losses on non-financial assets

	For the Year Ended December 31	
	2013	2012
Inventories (included in cost of revenues)	$ 417,166	$ 2,154,419
Investments accounted for by the equity method (included in other gains and losses)	-	56,687
Other intangible assets (including goodwill) (included in other gains and losses)	864,352	57,621
	$ 1,281,518	$ 2,268,727

g. Items that were reclassified to other comprehensive income

	For the Year Ended December 31	
	2013	2012
Exchange differences on translating foreign operations		
Exchange differences arising during the year	$ 1,680,660	$ (1,089,693)
Reclassification adjustments relating to foreign operations disposed of in the year	(31,248)	-
	$ 1,649,412	$ (1,089,693)
Available-for-sale financial assets		
Net fair value gain on available-for-sale financial assets during the year	$ 42	$ 11,408
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	(11,779)	(4,631)
	$ (11,737)	$ 6,777

(Continued)

	For the Year Ended December 31	
	2013	2012
Cash flow hedges		
Fair value gains arising during the year	$ -	$ 204,519
Reclassification adjustments for amounts recognized in profit or loss	(194,052)	(10,467)
	$ (194,052)	$ 194,052

(Concluded)

26. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2013	2012
Current tax		
In respect of the current period	$ 1,432,715	$ 3,948,447
In respect of the prior periods	85,656	(151,465)
	1,518,371	3,796,982
Deferred tax		
In respect of the current period	(390,230)	(662,607)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	(1,298,103)
	(390,230)	(1,960,710)
Income tax recognized in profit or loss	$ 1,128,141	$ 1,836,272

The income tax for the years ended December 31, 2013 and 2012 can be reconciled to the accounting profit as follows:

	For the Year Ended December 31	
	2013	2012
(Loss) profit before income tax	$ (195,644)	$ 19,458,065
Income tax calculated at 17%	-	3,307,871
Effect of expenses that were not deductible in determining taxable profit	210,430	398,686
Effect of temporary differences	(152,462)	(2,052,711)
Effect of investment tax credits	(1,126,249)	(1,351,783)
Effect of loss carryforward	(2,298)	(6,695)
Effect of income that is exempt from taxation	(501)	(314,340)
Additional income tax under the Alternative Minimum Tax Act	-	46,334
Additional 10% income tax on unappropriated earnings	1,126,249	2,315,062
Effect of Alternative Minimum Tax rate changes from 10% to 12% on deferred income tax (effective in 2013)	-	(1,298,103)
Effect of different tax rates of subsidiaries operating in other jurisdictions	987,316	943,416
Adjustments for prior years' tax	85,656	(151,465)
Income tax recognized in profit or loss	$ 1,128,141	$ 1,836,272

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2013	**2012**
Deferred tax		
Recognized in current year		
Actuarial gain and loss (tax benefit)	$ (1,794)	$ (915)

c. Current tax assets and liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Current tax assets			
Tax refund receivable	$ 238,085	$ 61,532	$ 263,116
Current tax liabilities			
Income tax payable	$ 1,040,128	$ 2,713,373	$ 10,570,682

d. Deferred tax balances

The movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2013 and 2012 were as follows:

	2013					
	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Disposal of Subsidiaries**	**Translation Adjustment**	**Closing Balance**
Deferred tax assets						
Temporary differences						
Unrealized royalties	$ 2,985,884	$ (556,451)	$ -	$ -	$ -	$ 2,429,433
Unrealized marketing expenses	2,336,469	(57,711)	-	-	60,145	2,338,903
Unrealized warranty expense	859,853	(162,739)	-	-	15,320	712,434
Allowance for loss on decline in value of inventory	756,462	(220,526)	-	-	16,100	552,036
Unrealized profit	365,524	(63,257)	-	-	-	302,267
Unrealized salary and welfare	357,322	8,236	-	(1,416)	10,783	374,925
Unrealized contingent losses on purchase orders	70,779	29,166	-	-	-	99,945
Others	294,018	158,624	(915)	(3,295)	(42,758)	405,674
Loss carryforwards	484	1,449,272	-	(508)	370	1,449,618
Investment credits	663,047	(663,047)	-	-	-	-
	$ 8,689,842	$ (78,433)	$ (915)	$ (5,219)	$ 59,960	$ 8,665,235
Deferred tax liabilities						
Temporary differences						
Unrealized gain on investments	$ 470,743	$ (407,873)	$ -	$ -	$ 16,580	$ 79,450
Financial assets at FVTPL	2,961	16,515	-	-	-	19,476
Defined benefit plans	35,034	(17,227)	(2,709)	-	-	15,098
Others	139,198	(60,078)	-	(2,622)	(39,400)	37,098
	$ 647,936	$ (468,663)	$ (2,709)	$ (2,622)	$ (22,820)	$ 151,122

	2012				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Translation Adjustment	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized marketing expenses	$ 2,279,832	$ 67,928	$ -	$ (11,291)	$ 2,336,469
Unrealized royalties	1,981,614	1,004,270	-	-	2,985,884
Unrealized warranty expense	920,517	(59,157)	-	(1,507)	859,853
Allowance for loss on decline in value of inventory	510,613	219,792	-	26,057	756,462
Unrealized salary and welfare	233,111	92,109	-	32,102	357,322
Unrealized profit	173,146	192,378	-	-	365,524
Unrealized contingent losses on purchase orders	135,490	(64,711)	-	-	70,779
Others	76,818	167,660	915	48,625	294,018
Loss carryforwards	7,404	(6,793)	-	(127)	484
Investment credits	1,433	661,614	-	-	663,047
	$ 6,319,978	$ 2,275,090	$ 915	$ 93,859	$ 8,689,842
Deferred tax liabilities					
Temporary differences					
Unrealized gain on investments	$ 240,760	$ 234,852	$ -	$ (4,869)	$ 470,743
Financial assets at FVTPL	43,668	(40,707)	-	-	2,961
Defined benefit plans	31,276	3,758	-	-	35,034
Others	24,557	116,477	-	(1,836)	139,198
	$ 340,261	$ 314,380	$ -	$ (6,705)	$ 647,936

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

	December 31, 2013	December 31, 2012	January 1, 2012
Loss carryforward	$ 553,280	$ 95,455	$ 98,419
Investment credits			
Purchase of machinery and equipment	$ -	$ -	$ 317
Research and development	-	981,627	3,123,277
	$ -	$ 981,627	$ 3,123,594
Deductible temporary differences	$ 4,587,454	$ 5,341,763	$ 7,823,676

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

Loss carryforwards as of December 31, 2013 comprised of:

Remaining Carrying	Expiry Year
$ 65,915	2014
104,266	2015
2,447,376	2018
7,668,179	2023
130,169	2033
$ 10,415,905	

Under the Statute for Upgrading Industries, the Company was granted exemption from corporate income tax for as follows:

Item Exempt from Corporate Income Tax	**Expiry Year**
Sales of wireless and smartphone which has 3.5G and GPS function	2010.01.01-2014.12.31
Sales of wireless and smartphone which has 3.5G and GPS function	2015.01.01-2018.09.30

g. Unrecognized deferred tax liabilities associated with investments

As of December 31, 2013, December 31, 2012 and January 1, 2012, the unrecognized deferred tax liability for all taxable temporary differences associated with investments in subsidiaries were NT$559,255 thousand, NT$297,402 thousand and NT$588,125 thousand, respectively.

h. Integrated income tax

The imputation credit account ("ICA") information as of December 31, 2013, December 31, 2012 and January 1, 2012, were as follows:

	December 31, 2013	**December 31, 2012**	**January 1, 2012**
Unappropriated earnings generated on and after January 1, 1998	$ 47,282,820	$ 53,630,777	$ 75,687,478
Balance of ICA	$ 6,573,169	$ 5,966,033	$ 2,523,575

The actual creditable ratio for distribution of earnings of 2012 was 13.47%.

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.

c. Income tax assessments

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 CGC, HTC Investment Corporation and HTC I Investment Corporation for the years through 2011 have been assessed and approved by the tax authorities.

27. (LOSS) EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2013	**2012**
Basic (loss) earnings per share	$ (1.60)	$ 20.21
Diluted (loss) earnings per share	$ (1.60)	$ 20.12

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 Years

	For the Year Ended December 31	
	2013	**2012**
(Loss) profit for the year attributable to owners of the parent	$ (1,323,785)	$ 16,813,575

Shares

Unit: In Thousands of Shares

	For the Year Ended December 31	
	2013	**2012**
Weighted average number of ordinary shares used in computation of basic (loss) earnings per share	829,082	831,980
Effect of dilutive potential ordinary shares:		
Bonus issue to employees	-	3,748
Weighted average number of ordinary shares used in the computation of diluted (loss) earnings per share	829,082	835,728

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.

28. SHARE-BASED PAYMENT ARRANGEMENTS

Qualified employees of HTC and its subsidiaries were granted 15,000 thousand options in November 2013. Each option entitles the holder to subscribe for one common share of HTC. The options granted are valid for 7 years and exercisable at certain percentages after the second anniversary from the grant date. The exercise price equals to the closing price of HTC's common shares on the grant date. For any subsequent changes in the HTC's common shares, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31	
	Number of Options (In Thousands)	**Weighted-average Exercise Price (NT$)**
Balance at January 1	-	$ -
Options granted during the year	15,000	149
Balance at December 31	15,000	
Options exercisable, end of the year	-	
Weighted-average fair value of options granted per unit (NT$)	$ 43.603	

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

	December 31, 2013	December 31, 2012	January 1, 2012
Range of exercise price (NT$)	$ 149	$ -	$ -
Weighted-average remaining contractual life (years)	6.8 years	-	-

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

	November 2013
Grant-date share price (NT$)	$ 149
Exercise price (NT$)	149
Expected volatility	45.83%
Expected life (years)	7 years
Expected dividend yield	5.00%
Risk-free interest rate	1.63%

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

Compensation cost recognized was $26,742 thousand for the year ended December 31, 2013.

29. BUSINESS COMBINATIONS

Subsidiaries Acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
FunStream Corporation	Design, research and development of 3-D technology	February 2012	100.00	$ 45,090

The Company acquired FunStream Corporation to obtain its techniques in the design, research and development of 3-D technology. The Company paid cash for the acquisition of FunStream Corporation.

Assets Acquired and Liabilities Assumed at the Date of Acquisition

	FunStream Corporation
Current assets	
Cash and cash equivalents	$ 69
Other receivables	4
Net assets	$ 73

Goodwill Arising on Acquisition

	FunStream Corporation
Consideration transferred	$ 45,090
Less: Fair value of identifiable net assets acquired	(73)
Goodwill arising on acquisition	$ 45,017

Net Cash Outflow on Acquisition of Subsidiary

	For the Year Ended December 31	
	2013	2012
Consideration paid in cash	$ -	$ 45,090
Less: Cash and cash equivalent balances acquired	-	(69)
	$ -	$ 45,021

Impact of Acquisition on the Results of the Company

The results of acquiree since the acquisition date included in the consolidated statements of comprehensive income were as follows:

	Year Ended December 31, 2012
Revenue	
FunStream Corporation	$ -
Net loss	
FunStream Corporation	$ (43)

Had these business combinations been in effect at the beginning of the annual reporting period, the results of acquiree included in the consolidated statements of comprehensive income were as follows. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that actually would have been achieved had the acquisition been completed, nor is it intended to be a projection of future results.

	Year Ended December 31, 2012
Revenue	
FunStream Corporation	$ -
Net loss	
FunStream Corporation	$ (43)

30. DISPOSAL OF SUBSIDIARIES

In September 2013, the Company sold its 100% stake in Saffron Media Group Ltd. for US$47,000 thousand to CDMG Holdings UK Limited. Saffron Media Group Ltd is a provider of digital multimedia delivery services.

The Company and CHT each had held 50% share of Huada, respectively. In March 2012, Huada held a stockholders' meeting and re-elected its directors and supervisors. As a result, the investment type of the Company was changed to joint venture and the Company continued to account for this investment by the equity method.

In July 2012, the Company sold back 25% of Beats Electronics, LLC shares to the founding members of Beats for US$150,000 thousand. Beats specializes in design, research and development of audio technology. After the above transactions were completed, the Company lost its control on Beats.

Consideration Received

	Saffron Media Group Ltd.	Huada Digital Corporation	Beats Electronics, LLC
Cash and cash equivalents	$ 223,970	$ -	$ 4,498,923
Deferred sales proceeds	1,179,573	-	-
	$ 1,403,543	$ -	$ 4,498,923

At the completion of sales of Saffron Media Group Ltd., CDMG Holdings UK Limited paid HTC US$7,500 thousand in cash plus a purchaser note (the "Note") with five years term and 6% interest rate per annum, which was classified as "long-term receivable", in the amount of US$39,500 thousand. The Note and interest payment will be made on due date. The Note and accrued interest were secured by pledge of the shares obtained by the buying party in this transaction.

Three-year non-recourse secured promissory notes (the "Notes"), totaling US$150,000 thousand, were issued by the buying party for the above buy back of Beats Electronics, LLC and accounted for under "long-term receivable". These notes payable, bear interest based on LIBOR plus 1%, was secured by pledge of interest obtained by the buying party in this transaction. The Notes were received in full in November 2013.

Analysis of Asset and Liabilities Over Which Control Was Lost

	Saffron Media Group Ltd.	Huada Digital Corporation	Beats Electronics, LLC
Current assets			
Cash and cash equivalents	$ 79,704	$ 501,425	$ 146,184
Other current assets	105,670	123	5,928,728
Non-current assets	1,120,421	-	9,966,683
Current liabilities	(86,324)	(170)	(4,437,874)
Net assets disposed of	$ 1,219,471	$ 501,378	$ 11,603,721

Gain (Loss) on Disposal of Subsidiary

	Saffron Media Group Ltd.	Huada Digital Corporation	Beats Electronics, LLC
Consideration received	$ 1,403,543	$ -	$ 4,498,923
Net assets disposed of	(1,219,471)	(501,378)	(11,603,721)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary	(8,636)	-	-
Non-controlling interests	-	250,689	1,550,253
Remaining investment measured at fair value	-	250,689	5,340,277
Gain (loss) on disposal	$ 175,436	$ -	$ (214,268)

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 with a cost amounting to US$157,144 thousand (including initial investment cost of US$150,000 thousand and an accumulated gain of US$7,144 thousand on equity method investment). This transaction resulted in a loss on disposal of US$7,144 thousand (NT$214,268 thousand).

Net Cash Inflow (Outflow) on Disposal of Subsidiary

	For the Year Ended December 31	
	2013	2012
Consideration received in cash and cash equivalents	$ 223,970	$ -
Add: Collection of notes receivable	4,498,923	-
Less: Cash and cash equivalent balances disposed of	(79,704)	(647,609)
	$ 4,643,189	$ (647,609)

31. CAPITAL RISK MANAGEMENT

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

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

32. 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.

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets						
Held-to-maturity investments	$ -	$ -	$ 101,459	$ 101,436	$ 204,597	$ 203,783

b. Fair value measurements recognized in the consolidated balance sheet.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2013

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

December 31, 2012

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 6,950	$ -	$ 6,950
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 197	$ -	$ -	$ 197
Foreign listed stocks - equity investments	37,902	-	-	37,902
	$ 38,099	$ -	$ -	$ 38,099
Hedging derivative assets				
Derivative financial instruments	$ -	$ 204,519	$ -	$ 204,519

January 1, 2012

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 256,868	$ -	$ 256,868
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 279	$ -	$ -	$ 279
Mutual funds	736,031	-	-	736,031
	$ 736,310	$ -	$ -	$ 736,310

There were no transfers between Level 1 and 2 for the years ended December 31, 2013 and 2012.

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

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

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

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

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

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

Categories of Financial Instruments

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets			
FVTPL-Held for trading	$ 162,297	$ 6,950	$ 256,868
Derivative instruments in designated hedge accounting relationships	-	204,519	-
Held-to-maturity investments	-	101,459	204,597
Loans and receivables (Note 1)	83,114,076	111,465,267	154,423,936
Available-for-sale financial assets (Note 2)	4,603,300	4,343,006	4,144,964
Financial liabilities			
Amortized cost (Note 3)	84,824,794	113,247,237	126,552,729

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other current financial assets, note and 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 37.

Sensitivity analysis

The Company was mainly exposed to the Currency United Stated dollars ("USD"), Curreny 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)**
Year ended December 31, 2013		
USD	$ 54,355	$ -
EUR	(18,430)	-
RMB	(24,673)	-
JPY	3,377	-
Year ended December 31, 2012		
USD	52,628	(27,776)
EUR	(4,805)	-
RMB	(34,158)	-
JPY	(1,519)	25,711

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

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

b. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As of December 31, 2013, 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 13.

c. Liquidity risk

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

1) Liquidity risk tables

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

December 31, 2013

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 13,087,630	$ 33,188,221	$ -
Other payables	14,813,806	23,219,193	-
Other current liabilities	74,952	184,577	-
Guarantee deposits received	-	-	256,415
	$ 27,976,388	$ 56,591,991	$ 256,415

December 31, 2012

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 25,172,364	$ 48,445,833	$ -
Other payables	16,036,617	23,230,556	-
Other current liabilities	270,073	31,795	-
Guarantee deposits received	-	-	59,999
	$ 41,479,054	$ 71,708,184	$ 59,999

January 1, 2012

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 33,234,316	$ 45,238,814	$ -
Other payables	15,945,336	31,650,455	-
Other current liabilities	274,995	165,867	-
Guarantee deposits received	-	-	42,946
	$ 49,454,647	$ 77,055,136	$ 42,946

2) Bank credit limit

	December 31, 2013	December 31, 2012	January 1, 2012
Unsecured bank general credit limit			
Amount used	$ 1,697,088	$ 1,572,461	$ 1,892,407
Amount unused	45,647,802	45,104,312	10,899,663
	$ 47,344,890	$ 46,676,773	$ 12,792,070

33. 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:

Sales

	For the Year Ended December 31	
	2013	2012
Key management personnel	$ 2,002	$ -
Other related parties - Employees' Welfare Committee	23,454	220,037
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	12,439	2,242,971
	$ 37,895	$ 2,463,008

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

	December 31, 2013	December 31, 2012	January 1, 2012
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$ 1,309	$ 221,050	$ 473

The selling prices for products sold to related parties were lower than those sold to third parties, except some related parties have no comparison with those sold to third parties. No guarantees had been given or received for trade receivables from related parties. No bad debt expense had been recognized for the years ended December 31, 2013 and 2012 for the amounts owed by related parties.

Purchase

	For the Year Ended December 31	
	2013	**2012**
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$ 62,030	$ 63,675

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

	December 31, 2013	December 31, 2012	January 1, 2012
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$ 8,303	$ 19,269	$ -

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

	December 31, 2013	December 31, 2012	January 1, 2012
Associates			
Principal	$ -	$ 6,554,025	$ -
Interest receivables	-	46,068	-
	$ -	$ 6,600,093	$ -

On July 19, 2012, the Company's board of directors passed a resolution to offer US$225,000 thousand short-term loan to Beats Electronics, LLC to support the transition of Beats Electronics, LLC into a product company. This loan was secured by all the assets of Beats Electronics, LLC. Term loan must be repaid in full no later than one year from signing date of loan agreement and the repayment can be made in full at any time during the term of the loan or at the repayment date. The calculation of interest is based on LIBOR plus 1.5%, 3.5%, 5.5% and 7.5% for the first quarter to the fourth quarter, respectively. The principal and interest were received in full in June 2013. The interest income amounted to NT$211,139 thousand and NT$82,027 thousand for the years ended December 31, 2013 and 2012, respectively.

Compensation of Key Management Personnel

	For the Year Ended December 31	
	2013	2012
Short-term benefits	$ 577,638	$ 618,338
Post-employment benefits	2,979	9,560
Other long-term benefits	-	-
Termination benefits	165	-
Share-based payments	5,634	-
	$ 586,416	$ 627,898

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

	For the Year Ended December 31	
	2013	2012
Other related parties - other related parties' chairperson or its significant stockholder, is HTC's chairperson	$ 3,238	$ 61,155

As of December 31, 2012, the unpaid amount was NT$2,127 thousand.

Other Related-party Transactions

a. To enhance product diversity, the Company entered into a trademark and technology license agreement with associates and other related parties. The royalty expense was NT$219,026 thousand and NT$271,701 thousand for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2012 the amount of unpaid royalty was NT$130,960 thousand.

b. Other related parties provide business consulting service to the Company. The business consulting service fees were NT$2,748 thousand and NT$4,036 thousand for the years ended December 31, 2013 and 2012, respectively. As of December 31 and January 1, 2012, the unpaid business consulting service fees were NT$3,398 thousand, NT$210 thousand, respectively.

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

d. In October, 2013, the Company sold back all of shares in Beats Electronics, LLC to Beats Electronics, LLC for US$265,000 thousand. This transaction resulted in the recognition of a gain on disposal amounting to NT$2,637,673 thousand. For the related information, please refer to Note 16.

34. 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$2,359,041 thousand and NT$3,645,820 thousand as of December 31, 2013 and 2012 respectively.

As of December 31, 2013, December 31, 2012 and January 1, 2012 the Company had provided time deposits of NT$1,090 thousand, NT$3,700 thousand and NT$68,700 thousand had been classified as other current financial assets, respectively, as collateral for rental deposits and as part of the requirements for the Company to get a certificate from the National Tax Administration of the Northern Taiwan Province stating that it had no pending income tax.

35. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

   In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent owned by IPCom with the High Court in London, the United Kingdom. In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in above-mentioned courts in Germany and the United Kingdom are still ongoing. The Company 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. The Company believes the Committee will made a final determination that favors HTC; the final determination will be granted on March 14, 2014. Meanwhile, the Company has also worked on design around solution for all future products to ensure no business disruption in the US market.

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.

36. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

In February 2014, the Company and Nokia Corporation reached a settlement to dismiss all pending patent litigations between them and entered into a patent technology collaboration agreement. For more details, please refer to Note 35.

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 1,998 thousand treasury stocks on February 10, 2014.

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

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

	December 31, 2013		December 31, 2012		January 1, 2012	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets						
Monetary items						
USD	$ 2,109,805	29.93	$ 2,967,669	29.13	$ 3,143,462	30.28
EUR	301,083	41.27	317,011	38.42	498,383	39.19
JPY	3,089,002	0.2851	10,626,742	0.3383	373,750	0.3906
RMB	884,849	4.94	2,142,619	4.68	1,344,825	4.77
Non-monetary items						
USD	130,415	29.93	123,781	29.13	89,493	30.28
Investments accounted for by the equity method						
USD	-	-	193,639	29.13	2,500	30.28
Financial liabilities						
Monetary items						
USD	1,856,825	29.93	3,107,166	29.13	3,372,400	30.28
EUR	257,486	41.27	297,681	38.42	583,741	39.19
JPY	6,432,408	0.2851	17,276,121	0.3383	678,211	0.3906
RMB	1,446,364	4.94	2,310,079	4.68	1,463,205	4.77

38. SIGNIFICANT CONTRACTS

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

Contractor	Contract Term	Description
Apple, Inc.	November 11, 2012 - November 10, 2022	The scope of this license agreement covers both the current and future patents held by the parties as agreed upon and specifically set forth in the agreement, with royalty payable as prescribed.
Microsoft	February 1, 2009 - March 31, 2015	Authorization to use embedded operating system; royalty payment based on agreement.
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 - December 31, 2016	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
	January 1, 2014 - December 31, 2018	Patent and technology collaboration; payment for use of implementation patents based on agreement.
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents stated in the agreement.	GSM/DCS 1800/1900 patent license; royalty payment based on agreement.

(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)

39. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Under IFRS 8 - "Operating Segments," the Company is organized and managed as a single reportable business segment. The Company's operations are mainly in the research, design, manufacture and sale of smart mobile devices and the operating revenue is more than 90 percent of the total revenue.

Operating segment financial information was as follows:

Geographical Areas

The Company's non-current assets (other than financial instruments, deferred tax assets and post-employment benefit assets) located in Taiwan and in single foreign country as of December 31, 2013, December 31, 2012 and January 1, 2012 were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Taiwan	$ 31,928,554	$ 30,004,905	$ 26,579,662
Country Y	4,808,349	5,077,921	5,236,960
Country Z	411,746	1,249,807	10,271,855
Others	8,816,216	11,218,055	13,049,761
	$ 45,964,865	$ 47,550,688	$ 55,138,238

The Company's revenues from Taiwan and from single foreign country that were 10 percent or more of consolidated total revenues for the years ended December 31, 2013 and 2012 were as follows:

	For the Year Ended December 31	
	2013	2012
Taiwan	$ 19,882,726	$ 20,403,572
Country Y	33,008,560	53,557,704
Country Z	48,673,014	68,200,497
Others	101,838,348	146,858,402
	$ 203,402,648	$ 289,020,175

Major Customers

The Company did not have transactions with single external customers whose revenues amounted to 10 percent or more of the Company's total revenues for the years ended December 31, 2013 and 2012.

40. FIRST-TIME ADOPTION OF IFRSs

a. Basis of the preparation for financial information under IFRSs

The Company's consolidated financial statements for the year ended December 31, 2013 were the first IFRS financial statements. The Company not only follows the significant accounting policies stated in Note 4 but also applies the requirements under IFRS 1 "First-time Adoption of IFRS" as the basis for the preparation.

b. Effect of the transition from ROC GAAP to IFRSs

After transition to IFRSs, the effect on the Company's consolidated balance sheets as of December 31, and January 1, 2012 as well as the consolidated statements of comprehensive income for the year ended December 31, 2012, was stated as follows:

1) Reconciliation of consolidated balance sheet as of January 1, 2012

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		
Item	Amount	Measurement or Recognition Difference	Presentation Difference	Amount	Item	Note
Assets					Assets	
Current assets					Current assets	
Cash and cash equivalents	$ 87,501,508	$ -	$ (25,474,750)	$ 62,026,758	Cash and cash equivalents	a)
Financial assets at fair value through profit or loss - current	256,868	-	-	256,868	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	736,031	-	-	736,031	Available-for-sale financial assets - current	
Restricted assets - current	68,700	-	25,474,750	25,543,450	Other current financial assets	a)
Note and trade receivables, net	64,719,791	-	-	64,719,791	Note and trade receivables, net	
Other current financial assets	1,947,665	-	-	1,947,665	Other receivables	
Other receivables - related parties	966	-	-	966	Other receivables - related parties	
Income tax receivables	263,116	-	-	263,116	Current tax assets	
Inventories	28,430,590	-	-	28,430,590	Inventories	

(Continued)

ROC GAAP Item	ROC GAAP Amount	Effect of the Transition from ROC GAAP to IFRSs: Measurement or Recognition Difference	Effect of the Transition from ROC GAAP to IFRSs: Presentation Difference	IFRSs Amount	IFRSs Item	Note
Prepayments	$ 6,507,516	$ -	$ -	$ 6,507,516	Prepayments	
Deferred income tax assets - current	2,246,196	-	(2,246,196)	-	-	b)
Other current assets	249,644	-	-	249,644	Other current assets	
Total current assets	192,928,591	-	(2,246,196)	190,682,395	Total current assets	
Non-current assets					Non-current assets	
Held-to-maturity financial assets - non-current	204,597	-	-	204,597	Held-to-maturity financial assets - non-current	
Available-for-sale financial assets - non-current	279	-	-	279	Available-for-sale financial assets - non-current	
Financial assets measured at cost - non-current	3,408,654	-	-	3,408,654	Financial assets measured at cost - non-current	
Investments accounted for using the equity method	71,732	-	-	71,732	Investments accounted for using the equity method	
Properties	21,512,478	-	203,155	21,715,633	Property, plant and equipment	g), h)
Intangible assets	22,560,788	(342)	207,033	22,767,479	Intangible assets	d), g)
Refundable deposits	185,306	-	-	185,306	Refundable deposits	
Deferred charges	763,516	-	(763,516)	-	-	g)
Deferred income assets tax - non-current	3,675,521	58,000	2,586,457	6,319,978	Deferred tax assets	b), c)
Prepaid pension cost - non-current	183,703	(83,052)	-	100,651	Prepaid pension cost - non-current	d)
Other non-current assets	10,301,798	-	353,328	10,655,126	Other non-current assets	g), h)
Total non-current assets	62,868,372	(25,394)	2,586,457	65,429,435	Total non-current assets	
Total	$ 255,796,963	$ (25,394)	$ 340,261	$ 256,111,830	Total	
Liabilities and stockholders' equity					Liabilities and stockholders' equity	
Current liabilities					Current liabilities	
Note and trade payables	$ 78,473,130	$ -	$ -	$ 78,473,130	Note and trade payables	
Other payables	47,496,470	99,321	-	47,595,791	Other payables	f)
Income tax payables	10,570,682	-	-	10,570,682	Current tax liabilities	
-	-	-	15,133,275	15,133,275	Provisions - current	e)
Other current liabilities	16,794,415	-	(15,133,275)	1,661,140	Other current liabilities	e)
Total current liabilities	153,334,697	99,321	-	153,434,018	Total current liabilities	
Non-current liabilities					Non-current liabilities	
-	-	-	340,261	340,261	Deferred tax liabilities	b)
Guarantee deposits received	42,946	-	-	42,946	Guarantee deposits received	
Total non-current liabilities	42,946	-	340,261	383,207	Total non-current liabilities	
Total liabilities	153,377,643	99,321	340,261	153,817,225	Total liabilities	
Stockholders' equity					Equity attributable to owners of the parent	
Common stock	8,520,521	-	-	8,520,521	Common stock	
Capital surplus	16,619,594	(18,037)	-	16,601,557	Capital surplus	i)
Retained earnings	86,616,845	(74,837)	-	86,542,008	Retained earnings	c), d), f), i), j)
Other equity					Other equity	
Cumulative translation adjustments	32,134	(32,134)	-	-	Exchange differences on translating foreign operation	j)
Net losses not recognized as pension cost	(293)	293	-	-	-	d)
Unrealized gains or losses from available-for-sale financial assets	2,939	-	-	2,939	Unrealized gains or losses from available-for-sale financial assets	
Treasury shares	(10,365,144)	-	-	(10,365,144)	Treasury shares	
Total equity attributable to stockholders of the parent	101,426,596	(124,715)	-	101,301,881	Total equity attributable to owners of the parent	
Minority interest	992,724	-	-	992,724	Non-controlling interest	
Total stockholders' equity	102,419,320	(124,715)	-	102,294,605	Total equity	
Total	$ 255,796,963	$ (25,394)	$ 340,261	$ 256,111,830	Total	

(Concluded)

2) Reconciliation of consolidated balance sheet as of December 31, 2012

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		
Item	**Amount**	**Measurement or Recognition Difference**	**Presentation Difference**	**Amount**	**Item**	**Note**
Assets					Assets	
Current assets					Current assets	
Cash and cash equivalents	$ 53,878,067	$ -	$ (2,911,924)	$ 50,966,143	Cash and cash equivalents	a)
Financial assets at fair value through profit or loss - current	6,950	-	-	6,950	Financial assets at fair value through profit or loss - current	
Available-for-sale financial assets - current	37,902	-	-	37,902	Available-for-sale financial assets - current	
Held-to-maturity financial assets - current	101,459	-	-	101,459	Held-to-maturity financial assets - current	
Derivative financial assets for hedging - current	204,519	-	-	204,519	Derivative financial assets for hedging - current	
Restricted assets - current	3,649,520	-	2,911,924	6,561,444	Other current financial assets	a)
Note and trade receivables, net	41,253,826	-	-	41,253,826	Note and trade receivables, net	
Other current financial assets	1,524,269	-	-	1,524,269	Other receivables	
Other receivables - related parties	6,600,093	-	-	6,600,093	Other receivables - related parties	
Income tax receivables	61,532	-	-	61,532	Current tax assets	
Inventories	23,809,377	-	-	23,809,377	Inventories	
Prepayments	4,965,814	-	-	4,965,814	Prepayments	
Deferred income tax assets - current	3,530,215	-	(3,530,215)	-	-	b)
Other current assets	39,097	-	-	39,097	Other current assets	
Total current assets	139,662,640	-	(3,530,215)	136,132,425	Total current assets	
Non-current assets					Non-current assets	
Available-for-sale financial assets - non-current	197	-	-	197	Available-for-sale financial assets - non-current	
Financial assets measured at cost - non-current	4,304,907	-	-	4,304,907	Financial assets measured at cost - non-current	
Investments accounted for using the equity method	5,892,168	-	-	5,892,168	Investments accounted for using the equity method	
Properties	25,651,292	-	339,474	25,990,766	Property, plant and equipment	g), h)
Intangible assets	11,520,674	(269)	162,765	11,683,170	Intangible assets	d), g)
Refundable deposits	190,142	-	-	190,142	Refundable deposits	
Deferred charges	897,164	-	(897,164)	-	-	g)
Deferred income assets tax - non-current	4,427,776	83,915	4,178,151	8,689,842	Deferred tax assets	b), c), d)
Long-term receivables	4,369,350	-	-	4,369,350	Long-term receivables	
Prepaid pension cost - non-current	205,989	(86,716)	-	119,273	Prepaid pension cost - non-current	d)
Other non-current assets	9,481,827		394,925	9,876,752	Other non-current assets	g), h)
Total non-current assets	66,941,486	(3,070)	4,178,151	71,116,567	Total non-current assets	
Total	$ 206,604,126	$ (3,070)	$ 647,936	$ 207,248,992	Total	
Liabilities and stockholders' equity					Liabilities and stockholders' equity	
Current liabilities					Current liabilities	
Note and trade payables	$ 73,618,197	$ -	$ -	$ 73,618,197	Note and trade payables	
Other payables	39,173,722	93,451	-	39,267,173	Other payables	f)
Income tax payables	2,713,373	-	-	2,713,373	Current tax liabilities	
-	-	-	8,881,514	8,881,514	Provisions - current	e)
Other current liabilities	10,669,620	-	(8,881,514)	1,788,106	Other current liabilities	e)
Total current liabilities	126,174,912	93,451	-	126,268,363	Total current liabilities	
Non-current liabilities					Non-current liabilities	
-	-	-	647,936	647,936	Deferred tax liabilities	b)
Guarantee deposits received	59,999	-	-	59,999	Guarantee deposits received	
Total non-current liabilities	59,999	-	647,936	707,935	Total non-current liabilities	
Total liabilities	126,234,911	93,451	647,936	126,976,298	Total liabilities	

(Continued)

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		
		Measurement or Recognition	Presentation			
Item	Amount	Difference	Difference	Amount	Item	Note
Stockholders' equity					Equity attributable to owners of the parent	
Common stock	$ 8,520,521	$ -	$ -	$ 8,520,521	Common stock	
Capital surplus	16,619,594	(18,037)	-	16,601,557	Capital surplus	i)
Retained earnings	70,148,728	(46,697)	-	70,102,031	Retained earnings	c), d), f), i), j)
Other equity					Other equity	
Cumulative translation adjustments	(1,057,559)	(32,134)	-	(1,089,693)	Exchange differences on translating foreign operation	j)
Net losses not recognized as pension cost	(347)	347	-	-	-	d)
Unrealized gains or losses from available-for-sale financial assets	9,716	-	-	9,716	Unrealized gains or losses from available-for-sale financial assets	
Effective portion of gains and losses on hedging instruments in a cash flow hedge	194,052	-	-	194,052	Effective portion of gains and losses on hedging instruments in a cash flow hedge	
Treasury shares	(14,065,490)	-	-	(14,065,490)	Treasury shares	
Total equity attributable to stockholders of the parent	80,369,215	(96,521)	-	80,272,694	Total equity attributable to owners of the parent	
Total	$ 206,604,126	$ (3,070)	$ 647,936	$ 207,248,992	Total	

(Concluded)

3) Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2012

ROC GAAP		Effect of the Transition from ROC GAAP to IFRSs		IFRSs		
		Measurement or Recognition	Presentation			
Item	Amount	Difference	Difference	Amount	Item	Note
Revenues	$ 289,020,175	$ -	$ -	$ 289,020,175	Revenues	
Cost of revenues	216,095,098	(5,772)	-	216,089,326	Cost of revenues	d), f)
Gross profit	72,925,077	5,772	-	72,930,849	Gross profit	
Operating expenses					Operating expenses	
Selling and marketing	32,387,932	(5,369)	-	32,382,563	Selling and marketing	d), f)
General and administrative	6,227,469	364	-	6,227,833	General and administrative	d), f)
Research and development	15,489,969	3,170	-	15,493,139	Research and development	d), f)
Total operating expenses	54,105,370	(1,835)	-	54,103,535	Total operating expenses	
Operating profit	18,819,707	7,607	-	18,827,314	Operating profit	
Non-operating income and expenses	630,751	-	-	630,751	Non-operating income and expenses	
Profit before income tax	19,450,458	7,607	-	19,458,065	Profit before income tax	
Income tax	(1,861,272)	25,000	-	(1,836,272)	Income tax	c)
Profit for the period	$ 17,589,186	$ 32,607	$ -	17,621,793	Profit for the period	
				$ (1,089,693)	Exchange difference on translating foreign operation	
				6,777	Unrealized valuation gains and losses from available-for-sale financial assets	
				194,052	Effective portion of gains and losses on hedging instruments in a cash flow hedge	
				(5,382)	Actuarial loss on defined benefit pension plan	d)
				915	Income tax relating to components of other comprehensive income	d)
				(893,331)	Other comprehensive income and loss for the period, net of income tax	
				$ 16,728,462	Total comprehensive income	

4) Optional exemptions from IFRS 1

Under IFRS 1, an entity that adopts IFRS for the first time should apply all IFRSs in preparing financial statements and should make adjustments retrospectively; however, the entity may select to use certain optional exemptions and mandatory exemptions stated in IFRS 1. The main optional exemptions the Company adopted were as follows:

a) Business combinations

The Company elected not to apply IFRS 3 - Business Combination retrospectively to business combinations that occurred before the date of transition to IFRSs. Thus, in the opening balance sheet, the amount of goodwill generated from past business combinations remains the same as that shown under ROC GAAP as of December 31, 2011.

b) Goodwill arising from business combinations and fair value adjustments

In accordance with IAS 21 - "The Effects of Changes in Foreign Exchange Rates", any goodwill and any fair value adjustment to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation. Thus, goodwill and those fair value adjustments should be expressed in the foreign operation's functional currency and should be translated at the closing rate at the end of the reporting period. The Company elected not to apply IAS 21 retrospectively to goodwill and those fair value adjustments arising from business combinations that occurred before the date of transition to IFRSs. Thus, goodwill and fair value adjustments that occurred before the date of transition to IFRSs are expressed in New Taiwan dollars using the historical exchange rates.

c) Share-based payment transactions

The Company elected to use the exemption from the retrospective application of IFRS 2 - "Share-based Payment" to all equity instruments that were granted and vested before the date of transition to IFRSs.

d) Employee benefits

The Company elected to recognize all cumulative actuarial gains and losses on employee benefits in accumulated earnings at the date of transition to IFRSs.

e) Accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation

The Company elected to reset the accumulated balances of exchange differences resulting from translating the financial statements of a foreign operation to zero at the date of transition to IFRSs, and the reversal has been used to offset accumulated earnings as of December 31, 2011. Thus, the gain or loss on any subsequent disposal of foreign operations should exclude translation differences that arose before the date of transition to IFRSs.

5) Explanations of significant reconciling items in the transition to IFRSs

Material differences between the accounting policies under ROC GAAP and the accounting policies adopted under IFRSs were as follows:

a) Under ROC GAAP, the term "cash" used in the financial statements includes cash on hand, demand deposits, check deposits, time deposits that are cancellable but without any loss of principal and negotiable certificates of deposit that are readily salable without any loss of principal. However, under IFRSs, cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition. Some certificates of deposit the Company held had maturity of more than 3 months from the date of investment. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$25,474,750 thousand and NT$2,911,924 thousand in "cash and cash equivalents" and increases by the same amounts in "other current financial assets."

b) Under ROC GAAP, a deferred income tax asset or liability should be classified as current or noncurrent in accordance with the classification of the related asset or liability for financial reporting. However, a deferred income tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent on the basis of the expected length of time before it is realized or settled. By contrast, under IFRSs, a deferred income tax asset or liability is always classified as noncurrent. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$2,246,196 thousand and NT$3,530,215 thousand in "deferred income tax asset - current" and increases by the same amounts in "deferred income tax assets - non-current."

   Under ROC GAAP, deferred tax assets are recognized in full but are reduced by a valuation allowance account if there is evidence showing that a portion of or all the deferred tax assets will not be realized. However, under IFRSs, an entity recognizes only to the extent that it is highly probable that taxable profits will be available against which the deferred tax assets can be used; thus, a valuation allowance account is not used. Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$11,132,656 thousand and NT$6,445,409 thousand in "deferred income tax assets" and in the valuation allowance account. Also, as of January 1 and December 31, 2012, the reclassification adjustment resulted in increases of NT$340,261 thousand and NT$647,936 thousand in "deferred income tax assets" and "deferred income tax liabilities".

c) Under ROC GAAP, deferred income tax assets or liabilities from intergroup sales are recognized for the change in tax basis using the tax rate of ROC. However, under IFRSs, the buyer's tax rates are used instead. Thus, the IFRS adjustment as of January 1, 2012 resulted in increases of NT$58,000 thousand each in "deferred income tax assets" and "accumulated earnings." In addition, the evaluation adjustment made on December 31, 2012 resulted in increases of NT$83,000 thousand in "deferred income tax assets" and in "accumulated earnings" and a decrease in "income tax" by NT$25,000 thousand.

d) Under IFRS 1, the Company elected to recognize all cumulative actuarial gains and losses relating to employee benefits at the date of transition to IFRSs. Thus, as of January 1, 2012, the IFRS adjustment resulted in a decrease of NT$83,687 thousand in "accumulated earnings" due to decreases in "deferred pension cost" by NT$342 thousand, "defined benefit assets" by NT$83,052 thousand and "net loss not recognized as pension cost" by NT$293 thousand.

   As of December 31, 2012, the IFRS adjustment resulted in a decrease in "accumulated earnings" by NT$86,417 thousand due to decreases in "deferred pension cost" by NT$269 thousand, "defined benefit assets" by NT$86,716 thousand and "net loss not recognized as pension cost" by NT$347 thousand and increase in "deferred income tax assets" by NT$915 thousand. In addition, this adjustment resulted in decreases in "cost of revenues" by NT$473 thousand, "selling and marketing expenses" by NT$526 thousand, "general and administrative expenses" by NT$193 thousand and "research and developing expenses" by NT$545 thousand.

e) Under ROC GAAP, if an obligation is probable (i.e., likely to occur) and the amount could be reasonably estimated, it is a contingent liability and should be accrued for, but under which account is not clearly defined. However, under IFRSs, it defines "provisions" as obligations that are probable (i.e., more likely than not) and the amount could be reasonably estimated.

Thus, as of January 1 and December 31, 2012, the reclassification adjustment resulted in decreases of NT$15,133,275 thousand and NT$8,881,514 thousand, respectively, in “other current liabilities” and increases by the same amounts in “provisions - current.”

f) Accumulated compensated absences are not addressed in existing ROC GAAP; thus, the Company has not recognized the expected cost of employee benefits in the form of accumulated compensated absences at the end of reporting periods. However, under IFRSs, when the employees render services that increase their entitlement to future compensated absences, an entity should recognize the expected cost of employee benefits at the end of reporting periods. Thus, as of January 1, 2012, the IFRS adjustment resulted in an increase in “accrued expenses” by NT$99,321 thousand and a decrease by the same amount in “accumulated earnings.” In addition, the evaluation adjustment made on December 31, 2012 resulted in (a) a decrease in “accumulated earnings” by NT$93,451 thousand due to an increase of “accrued expenses”; (b) decreases in “cost of revenues” by NT$5,299 thousand and “selling and marketing expenses” by NT$4,843 thousand and (c) increases in “general and administrative expenses” by NT$557 thousand and “research and developing expenses” by NT$3,715 thousand.

g) Under ROC GAAP, deferred charges are classified under other assets. Transition to IFRSs, deferred charges are classified under “property, plant and equipment”, “other intangible assets” and “other assets - other” according to the nature. Thus, as of January 1 and, December 31, 2012, the Company reclassified NT$410,217 thousand and NT$571,485 thousand, respectively, of “deferred charges” to “property, plant and equipment”; and reclassified NT$207,033 thousand and NT$162,765 thousand, respectively, of “deferred charges” to “other intangible assets” and reclassified NT$146,266 thousand and NT$162,914 thousand, respectively, of “deferred charges” to “other assets - other”.

h) The Company purchased fixed assets and made prepayments, pursuant to the “Rules Governing the Preparation of Financial Statements by Securities Issuers.” Such prepayments are presented as “properties”. Transition to IFRSs, the prepayments are classified under “other assets - other”. Thus, as of January 1 and December 31, 2012, the Company reclassified NT$207,062 thousand and NT$232,011 thousand, respectively, of “property, plant and equipment” to “other assets - other”.

i) Under ROC GAAP, if an investee issues new shares and an investor does not purchase new shares proportionately, capital surplus and the long-term equity investment accounts should be adjusted for the change in the investor’s holding percentage and interest in the investee’s net assets. By contrast, under IFRSs, a reduction of investor’s ownership interest that results in loss of significant influence on or control over an investee would be treated as a deemed disposal, with the related gain or loss recognized in profit or loss. An entity may elect not to adjust the difference retrospectively, and the Company elected to use the exemption from retrospective application. The IFRS adjustment resulted in a decrease of capital surplus - long-term equity investments of NT$18,037 thousand and a corresponding increase of accumulated earnings by related rules.

j) The Company elected to reset the accumulated balances of exchange differences resulting from translating foreign operation to zero at the date of transition to IFRSs, and the reversal has been used to adjust accumulated earnings as of January 1, 2012. The gain or loss on any subsequent disposals of any foreign operations should exclude accumulated balances of exchange differences resulting from translating foreign operation that arose before the date of transition to IFRSs. Therefore, the IFRS adjustment resulted in a decrease in accumulated balances of exchange differences resulting from translating foreign operation and an increase in accumulated earnings by NT$32,134 thousand each.

6) Material adjustment to consolidated statement of cash flows

Under ROC GAAP, using the indirect method, the interests and dividends received and interests paid were usually classified as operating cash flows, and dividends paid were usually classified as financial cash flows and supplemental cash flows information is provided for interests paid. However, under IFRS 7, cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period either as operating, investing or financing activities. Thus, for the year ended December 31, 2012, the cash flows of interests and dividends received in the amount of NT$589,899 thousand and NT$22,441 thousand were disclosed separately.

As of January 1 and December 31, 2012, time deposits with original maturities more than three months amounted to NT$25,474,750 thousand and NT$2,911,924 thousand, respectively, and not to be classified as “cash and cash equivalents” in accordance with IFRSs since they are held for investment purpose. For more details of this adjustment, please refer to Note 40 section b. 5) a).

Except for the above, the Company’s consolidated statement of cash flows in accordance with IFRSs and ROC GAAP had no other significant differences.