

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
HTC Corporation

Opinion

We have audited the accompanying consolidated financial statements of HTC Corporation and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HTC Corporation and its subsidiaries as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China.

Basis for Opinion

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

Emphasis of Matter

As disclosed in Note 3 to the consolidated financial statements, HTC Corporation and its subsidiaries initially applied the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC. As a result of the retrospective application of the accounting policies, HTC Corporation and its subsidiaries has performed an assessment of the classification of recognized financial assets and has elected not to restate its consolidated financial statements of the prior reporting periods on the basis of the facts and circumstances that existed as of January 1, 2018. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of the consolidated financial statements for the year ended December 31, 2018 are as follows:

Valuation of Inventories

HTC Corporation and its subsidiaries' operations mainly focus on the research, design, manufacture and sale of smart mobile and virtual reality devices, and the balance of inventories amounted to NT\$3,301,645 thousand as of December 31, 2018. Due to the rapid change in technology, the industry is highly competitive; in addition, since the management needs to apply judgment to evaluate the net realizable value of inventories, and as the balance of inventories represents a significant portion of the consolidated financial statements as of December 31, 2018, the valuation of inventories was deemed to be a key audit matter.

We have obtained an understanding of the processes and controls performed by management in performing the valuation of inventories and evaluated the accounting policy on the assessment of inventory write-downs. We checked the classification of products and tested the origin source of net realizable value estimation.

For the accounting policy of the assessment of inventory write-downs, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Note 13.

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

As of December 31, 2018, the carrying amounts of property, plant and equipment, prepayments, intangible assets and deferred tax assets were NT\$8,425,886 thousand, NT\$1,199,909 thousand, NT\$1,181,256 thousand and NT\$3,957,060 thousand, respectively. HTC Corporation and its subsidiaries operates in a highly competitive environment. In comparison with previous periods, the current period operating conditions and earnings deteriorated significantly, indicating potential impairment of the assets. As the impairment may be material to the consolidated financial statements for the year ended December 31, 2018, the evaluation of impairment and realizability were deemed to be a key audit matter.

The audit procedures performed in respect of HTC Corporation and its subsidiaries' assessment of assets for impairment included the following:

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

For the accounting policy on the impairment of property, plant and equipment, prepayments, intangible assets and deferred tax assets, please refer to Note 4; for critical accounting judgments and key sources of estimation uncertainty, please refer to Note 5; and for other relevant disclosures, please refer to Notes 14, 18, 20 and 28.

Revenue Recognition

According to the accounting policy stated in Note 4, revenue from the sale of goods is recognized when the control and risks are transferred to the buyers. The revenue recognition turns to be difficult due to the conditions of part of the customers accounts for 39% of HTC Corporation and its subsidiaries' consolidated operating revenues are more complicated than those applied to the general sale transactions. Because of the significance of sales revenue, revenue recognition was deemed to be a key audit matter.

We have obtained necessary understanding and have verified the accounting policy and the design and implementation of internal controls with respect to HTC Corporation and its subsidiaries' revenue recognition. We checked compliance with the accounting policy on revenue recognition by reviewing the relevant contracts. For ensuring HTC Corporation and its subsidiaries' compliance with IFRS 15, samples from the recognized revenue have been selected to test if the conditions of revenue recognition were met.

Major transaction

According to the disclosure in Note 27, HTC Corporation and its subsidiaries signed a business cooperation agreement (the "Agreement") with Google Inc. ("Google") on September 21, 2017. According to the Agreement, a part of HTC Corporation and its subsidiaries' employees and assets was transferred to Google at the price of US\$1,100,000 thousand. The aforementioned transaction was completed on January 30, 2018, and resulted in a net gain of NT\$31,300,655 thousand. Therefore, the upfront royalty is recognized as revenue when the subsequent usage of patents occurs. As the transaction mentioned above may be material to the consolidated financial statements, it was deemed to be a key audit matter.

We have obtained necessary understanding of the accounting policy and the design and implementation of internal controls with respect to the major transaction aforementioned. We checked compliance with the accounting policy on revenue recognition by checking the relevant contracts and verified the condition of revenue recognition was satisfied for ensuring HTC Corporation and its subsidiaries' compliance with IFRS 15.

Other Matters

We have also audited the parent company only financial statements of HTC Corporation as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with emphasis of matter and unmodified opinion, respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing HTC Corporation and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate HTC Corporation and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including management and supervisors, are responsible for overseeing HTC Corporation and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within HTC Corporation and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 1, 2019

Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 24,449,548	36	\$ 10,443,227	16
Financial assets at fair value through profit or loss - current (Notes 7 and 35)	83,411	-	65,199	-
Financial assets at fair value through other comprehensive income - current (Note 9)	409,412	1	-	-
Available-for-sale financial assets - current (Note 35)	-	-	312,106	-
Trade receivables, net (Notes 12 and 36)	1,683,150	3	8,537,096	13
Other receivables (Note 12)	221,707	-	103,497	-
Current tax assets (Note 28)	222,387	-	131,901	-
Inventories (Note 13)	3,301,645	5	7,381,426	11
Prepayments (Note 14)	1,160,299	2	1,742,986	3
Non-current assets held for sale (Note 15)	-	-	1,647,763	3
Other current financial assets (Notes 11 and 37)	16,915,835	25	7,988,363	12
Other current assets	12,812	-	135,821	-
Total current assets	<u>48,460,206</u>	<u>72</u>	<u>38,489,385</u>	<u>58</u>
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current (Notes 7 and 35)	236,464	-	-	-
Financial assets at fair value through other comprehensive income - non-current (Note 9)	2,325,020	3	-	-
Available-for-sale financial assets - non-current (Note 35)	-	-	91	-
Financial assets measured at cost - non-current (Notes 10 and 35)	-	-	3,187,240	5
Investments accounted for using equity method (Note 17)	446,133	1	413,120	1
Property, plant and equipment (Notes 18 and 36)	8,425,886	13	10,798,613	16
Investment properties, net (Note 19)	2,090,226	3	-	-
Intangible assets (Note 20)	1,181,256	2	2,315,441	3
Deferred tax assets (Note 28)	3,957,060	6	8,990,648	14
Refundable deposits (Note 35)	124,962	-	139,016	-
Net defined benefit asset - non-current (Note 24)	270,358	-	18,119	-
Other non-current financial assets (Notes 11 and 37)	153,638	-	-	-
Other non-current assets (Note 14)	39,610	-	2,233,733	3
Total non-current assets	<u>19,250,613</u>	<u>28</u>	<u>28,096,021</u>	<u>42</u>
TOTAL	<u>\$ 67,710,819</u>	<u>100</u>	<u>\$ 66,585,406</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 35)	\$ 82,156	-	\$ 75,184	-
Note and trade payables (Notes 21 and 36)	9,812,847	15	14,569,222	22
Other payables (Note 22)	9,223,293	14	11,681,890	18
Current tax liabilities (Note 28)	241,167	-	253,240	-
Provisions - current (Note 23)	2,004,190	3	3,377,201	5
Other current liabilities (Note 22)	953,447	1	2,850,713	4
Total current liabilities	<u>22,317,100</u>	<u>33</u>	<u>32,807,450</u>	<u>49</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 28)	43,451	-	47,147	-
Guarantee deposits received (Note 35)	130,400	-	5,681	-
Total non-current liabilities	<u>173,851</u>	<u>-</u>	<u>52,828</u>	<u>-</u>
Total liabilities	<u>22,490,951</u>	<u>33</u>	<u>32,860,278</u>	<u>49</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 25)				
Share capital - ordinary shares	8,188,135	12	8,208,261	12
Capital surplus	15,576,268	23	15,551,491	24
Retained earnings				
Legal reserve	18,297,655	27	18,297,655	27
Unappropriated earnings (accumulated deficits)	6,194,337	9	(6,093,403)	(9)
Other equity	(3,087,557)	(4)	(2,268,428)	(3)
Total equity attributable to owners of the parent	45,168,838	67	33,695,576	51
NON-CONTROLLING INTERESTS	<u>51,030</u>	<u>-</u>	<u>29,552</u>	<u>-</u>
Total equity	<u>45,219,868</u>	<u>67</u>	<u>33,725,128</u>	<u>51</u>
TOTAL	<u>\$ 67,710,819</u>	<u>100</u>	<u>\$ 66,585,406</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 1, 2019)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 8, 26 and 36)	\$ 23,740,610	100	\$ 62,119,814	100
OPERATING COST (Notes 13, 24, 27 and 36)	<u>23,225,592</u>	<u>98</u>	<u>60,780,122</u>	<u>98</u>
GROSS PROFIT	<u>515,018</u>	<u>2</u>	<u>1,339,692</u>	<u>2</u>
OPERATING EXPENSES (Notes 27 and 36)				
Selling and marketing	3,820,225	16	4,785,172	7
General and administrative	3,588,587	15	3,559,260	6
Research and development	<u>7,069,819</u>	<u>30</u>	<u>10,420,777</u>	<u>17</u>
Total operating expenses	<u>14,478,631</u>	<u>61</u>	<u>18,765,209</u>	<u>30</u>
OPERATING LOSS	<u>(13,963,613)</u>	<u>(59)</u>	<u>(17,425,517)</u>	<u>(28)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 27)	1,235,879	5	673,103	1
Other gains and losses (Notes 8, 10, 14, 15, 18, 20 and 27)	29,994,218	127	(85,851)	-
Finance costs	(1,915)	-	(33,315)	-
Share of the loss of associates (Note 17)	<u>(36,087)</u>	<u>-</u>	<u>(87,255)</u>	<u>-</u>
Total non-operating income and expenses	<u>31,192,095</u>	<u>132</u>	<u>466,682</u>	<u>1</u>
PROFIT (LOSS) BEFORE INCOME TAX	17,228,482	73	(16,958,835)	(27)
INCOME TAX (EXPENSE) BENEFIT (Note 28)	<u>(5,203,581)</u>	<u>(22)</u>	<u>38,476</u>	<u>-</u>
PROFIT (LOSS) FOR THE YEAR	<u>12,024,901</u>	<u>51</u>	<u>(16,920,359)</u>	<u>(27)</u>
OTHER COMPREHENSIVE INCOME AND LOSS, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 24)	179,401	1	(33,129)	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(857,107)	(4)	-	-
Income tax relating to items that will not be reclassified to profit or loss (Note 28)	<u>(21,529)</u>	<u>-</u>	<u>4,014</u>	<u>-</u>
	<u>(699,235)</u>	<u>(3)</u>	<u>(29,115)</u>	<u>-</u>

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	\$ 133,388	-	\$ (1,401,328)	(2)
Unrealized gain on available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>131,392</u>	<u>-</u>
	<u>133,388</u>	<u>-</u>	<u>(1,269,936)</u>	<u>(2)</u>
Other comprehensive income and loss for the year, net of income tax	<u>(565,847)</u>	<u>(3)</u>	<u>(1,299,051)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 11,459,054</u>	<u>48</u>	<u>\$ (18,219,410)</u>	<u>(29)</u>
NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	\$ 12,068,202	51	\$ (16,905,713)	(27)
Non-controlling interests	<u>(43,301)</u>	<u>-</u>	<u>(14,646)</u>	<u>-</u>
	<u>\$ 12,024,901</u>	<u>51</u>	<u>\$ (16,920,359)</u>	<u>(27)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	\$ 11,500,096	48	\$ (18,205,286)	(29)
Non-controlling interests	<u>(41,042)</u>	<u>-</u>	<u>(14,124)</u>	<u>-</u>
	<u>\$ 11,459,054</u>	<u>48</u>	<u>\$ (18,219,410)</u>	<u>(29)</u>
EARNINGS (LOSS) PER SHARE (Note 29)				
Basic	<u>\$ 14.72</u>		<u>\$ (20.58)</u>	
Diluted	<u>\$ 14.50</u>		<u>\$ (20.58)</u>	

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

(With Deloitte & Touche audit report dated March 1, 2019)

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										
	Retained Earnings				Other Equity						
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized (Losses) Gains on Available-for- sale Financial Assets	Unearned Employee Benefit	Total	Non- controlling Interests	Total Equity
BALANCE, JANUARY 1, 2017	\$ 8,220,087	\$ 15,614,641	\$ 18,297,655	\$ 10,841,425	\$ (781,298)	\$ -	\$ (167,082)	\$ (253,922)	\$ 51,771,506	\$ -	\$ 51,771,506
Net loss for the year ended December 31, 2017	-	-	-	(16,905,713)	-	-	-	-	(16,905,713)	(14,646)	(16,920,359)
Other comprehensive income and loss for the year ended December 31, 2017	-	-	-	(29,115)	(1,401,850)	-	131,392	-	(1,299,573)	522	(1,299,051)
Issuance of stock from exercise of employee stock options	100	445	-	-	-	-	-	-	545	-	545
Share-based payments	(11,926)	(63,595)	-	-	-	-	-	204,332	128,811	-	128,811
Non-controlling interests	-	-	-	-	-	-	-	-	-	43,676	43,676
BALANCE, DECEMBER 31, 2017	8,208,261	15,551,491	18,297,655	(6,093,403)	(2,183,148)	-	(35,690)	(49,590)	33,695,576	29,552	33,725,128
Effect of retrospective application	-	-	-	104,732	-	(171,354)	35,690	-	(30,932)	-	(30,932)
BALANCE, JANUARY 1, 2018 AS RESTATED	8,208,261	15,551,491	18,297,655	(5,988,671)	(2,183,148)	(171,354)	-	(49,590)	33,664,644	29,552	33,694,196
Net profit (loss) for the year ended December 31, 2018	-	-	-	12,068,202	-	-	-	-	12,068,202	(43,301)	12,024,901
Other comprehensive income and loss for the year ended December 31, 2018	-	-	-	157,872	131,129	(857,107)	-	-	(568,106)	2,259	(565,847)
Changes in capital surplus from investments in associates accounted for using the equity method	-	60,873	-	-	-	-	-	-	60,873	-	60,873
Issuance of shares from exercise of employee share options	1,490	6,631	-	-	-	-	-	-	8,121	-	8,121
Changes in percentage of ownership interests in subsidiaries	-	-	-	(43,066)	-	-	-	-	(43,066)	62,520	19,454
Share-based payments	(21,616)	(42,727)	-	-	-	-	-	42,513	(21,830)	-	(21,830)
BALANCE, DECEMBER 31, 2018	<u>\$ 8,188,135</u>	<u>\$ 15,576,268</u>	<u>\$ 18,297,655</u>	<u>\$ 6,194,337</u>	<u>\$ (2,052,019)</u>	<u>\$ (1,028,461)</u>	<u>\$ -</u>	<u>\$ (7,077)</u>	<u>\$ 45,168,838</u>	<u>\$ 51,030</u>	<u>\$ 45,219,868</u>

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

(With Deloitte & Touche audit report dated March 1, 2019)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before income tax	\$ 17,228,482	\$ (16,958,835)
Adjustments for:		
Depreciation expenses	575,573	1,006,481
Amortization expenses	1,198,288	1,386,637
Expected credit loss recognized (reversed) on trade receivables	82,964	(362,870)
Finance costs	1,915	33,315
Interests income	(546,772)	(283,574)
Dividend income	-	(47,284)
Compensation costs of employee share-based payments (reversed)	(21,830)	128,811
Share of the profit or loss of associates and joint venture	36,087	87,255
Net (gain) loss on disposal of property, plant and equipment	(245,446)	80,397
Net gain on disposal of assets and licensing income (Note 27)	(31,285,385)	-
Net gain on disposal of non-current assets held for sale	(1,077,246)	-
Net gain on disposal of investments	-	(24,305)
Net gain on disposal of subsidiary	(15,396)	-
Impairment loss on financial assets	-	109,779
Impairment loss on non-financial assets	3,374,551	6,048,636
Changes in operating assets and liabilities		
(Increase) decrease in financial instruments held for trading	(11,240)	20,207
Decrease in trade receivables	6,767,396	7,787,609
(Increase) decrease in other receivables	(18,873)	77,814
Decrease in inventories	3,022,777	1,068,702
Decrease in prepayments	539,518	90,513
Decrease (increase) in other current assets	123,009	(67,407)
(Increase) decrease in other non-current assets	(310,074)	396,101
Decrease in note and trade payables	(4,756,375)	(11,678,506)
Decrease in other payables	(2,413,211)	(6,662,537)
Decrease in provisions	(1,373,011)	(7,110)
Decrease in other current liabilities	(520,745)	(1,595,625)
Cash used in operations	(9,645,044)	(19,365,796)
Interest received	447,435	280,246
Interest paid	(1,915)	(33,315)
Income tax (paid) return	(296,300)	109,418
Net cash used in operating activities	<u>(9,495,824)</u>	<u>(19,009,447)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(161,097)	-
Purchase of financial assets at fair value through profit or loss	(107,067)	-
Purchase of financial assets measured at cost	-	(218,734)
Proceeds from disposal of financial assets measured at cost	-	91,107
Acquisition of associates	-	(6,019)
Net cash inflow on acquisition of subsidiaries	-	5,974

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
Net cash inflow on disposal of subsidiary	\$ 106,918	\$ -
Payments for non-current assets held for sale	-	(3,830)
Proceeds from disposal of non-current assets held of sale	2,748,931	-
Payments for property, plant and equipment	(575,465)	(262,375)
Proceeds from disposal of property, plant and equipment	385,287	17,766
(Decrease) increase in advance receipts - disposal of property	(1,374,465)	1,388,243
Decrease in refundable deposits	14,054	1,362,464
Payments for intangible assets	(53,725)	(566)
Increase in other current financial assets	(9,081,110)	(2,237,913)
Dividend received	-	47,284
Proceeds from disposal of assets and licensing income (Note 27)	<u>31,285,385</u>	<u>-</u>
Net cash generated from investing activities	<u>23,187,646</u>	<u>183,401</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from guarantee deposits received	124,719	-
Refund of guarantee deposits received	-	(16,425)
Proceeds from exercise of employee share options	8,121	545
Change in non-controlling interests	<u>19,454</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>152,294</u>	<u>(15,880)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>162,205</u>	<u>(795,064)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,006,321	(19,636,990)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>10,443,227</u>	<u>30,080,217</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 24,449,548</u>	<u>\$ 10,443,227</u>

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

(With Deloitte & Touche review audit dated March 1, 2019)

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

HTC Corporation (HTC) was incorporated on May 15, 1997 under the Company Law of Taiwan, the Republic of China. HTC and its subsidiaries (collectively referred to as the “Company”) are engaged in designing, manufacturing, assembling, processing, and selling smart mobile and virtual reality devices and provide with after-sales service.

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by HTC’s Board of Directors and authorized for issue on March 1, 2019.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Company’s accounting policies:

- 1) IFRS 9 “Financial Instruments” and related amendments

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively from January 1, 2018, and the other requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized on December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 10,443,227	\$ 10,443,227	a)
Derivatives	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	196,941	196,941	b)
Equity instruments	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI)	3,367,695	3,336,763	c)
Time deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	7,988,363	7,988,363	a)
Trade receivables and other receivables	Loans and receivables	Amortized cost	8,640,593	8,640,593	a)
Refundable deposits	Loans and receivables	Amortized cost	139,016	139,016	a)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>FVTPL</u>	\$ -	\$ 196,941	\$ -	\$ 196,941	\$ -	\$ -	b)
Add: From available for sale (IAS 39) - mandatory reclassification	196,941	(196,941)	-	-	-	-	b)
<u>FVTOCI</u>	-	3,367,695	(30,932)	3,336,763	104,732	(135,664)	c)
Add: Reclassification from available for sale (IAS 39) - equity instruments	3,367,695	(3,367,695)	-	-	-	-	c)
<u>Amortized cost</u>	-	27,211,199	-	27,211,199	-	-	a)
Add: Reclassification from loans and receivables (IAS 39)	27,211,199	(27,211,199)	-	-	-	-	a)

- Cash and cash equivalents, time deposits with original maturities of more than 3 months, trade receivables and other receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.
- Derivatives that previously classified as held-for-trading under IAS 39 were mandatorily classified as measured at FVTPL under IFRS 9.
- The Company elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the financial assets at FVTOCI increased to NT\$312,197 thousand on January 1, 2018. The related other equity - unrealized gains or losses on available-for-sale financial assets of NT\$35,690 thousand was reclassified to other equity - unrealized gains or losses on financial assets at FVTOCI.

Investments in equity instruments previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of NT\$3,024,566 and a decrease of NT\$30,932 thousand were recognized respectively in both financial assets at FVTOCI and other equity - unrealized gains or losses on financial assets at FVTOCI on January 1, 2018.

The Company recognized under IAS 39 impairment loss on certain investments in equity instruments previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$104,732 thousand in other equity - unrealized gains or losses on financial assets at FVTOCI and an increase of \$104,732 thousand in retained earnings on January 1, 2018.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

The patents licensed by the Company have their use by the authorized parties designated as uncommitted under the related agreements for which the Company has no remaining performance obligations. The patents to which the licenses relate have significant stand-alone functionalities, and under IFRS 15, the Company recognizes revenue when the licenses are transferred. Prior to the application of IFRS 15, royalties were recognized on a straight-line basis over the lives of the agreements.

The Company elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018. Except for the contracts signed on and after January 1, 2018, the contracts which were incomplete as of January, 1 2018 have no material impact on Company’s financial position and financial performance.

Under IAS 18, compared with IFRS 15, the related adjustments comprised an increase in assets of NT\$641,212 thousand and an increase in liabilities of NT\$3,206,060 thousand on December 31, 2018. For the year ended December 31, 2018, both net profit and total comprehensive income will decrease by NT\$2,564,848 thousand, and the basic earnings per share and diluted earnings per share will decrease by NT\$3.13 and NT\$3.08, respectively.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

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

Definition of a lease

Upon initial application of IFRS 16, the Company will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. The difference between the actual payments and the expenses, as adjusted for lease incentives, is recognized as accrued expenses. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate. Except for the following practical expedients which are to be applied, the Company will apply IAS 36 to all right-of-use assets.

The Company expects to apply the following practical expedients:

- a) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Company will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Company will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Company as lessor

Except for sublease transactions, the Company will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ _____ -	\$ 429,183	\$ 429,183
Total effect on assets	<u>\$ _____ -</u>	<u>\$ 429,183</u>	<u>\$ 429,183</u>
Lease liabilities - current	\$ -	\$ 157,434	\$ 157,434
Lease liabilities - non-current	_____ -	<u>271,749</u>	<u>271,749</u>
Total effect on liabilities	<u>\$ _____ -</u>	<u>\$ 429,183</u>	<u>\$ 429,183</u>

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company assessed that the application of other standards and interpretations will not have material impact on the Company’s financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

Note 2: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

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

Classification of Current and Non-current Assets and Liabilities

Current assets include:

- a. Assets held primarily for trading purposes;
- b. Assets to be realized within twelve months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities are:

- a. Liabilities held primarily for the purpose of trading;

- b. Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the HTC and the entities controlled by the HTC (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

See Note 16 for the detailed information of subsidiaries (including the percentage of ownership and main business).

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

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

Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

- a. Exchange differences on transactions entered into in order to hedge certain foreign currency risks (please refer to Note 4 "Hedge accounting" section); and
- b. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

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

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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

Inventories

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

Investments in Associates

An associate is an entity over which the Company has significant influence and that is not a subsidiary.

The Company uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the equity of associates attributable to the Company.

When the Company subscribes for additional new shares of the associate 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 charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of associate, 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 its 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 and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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 entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

Property, Plant and Equipment

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

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

For a transfer from the property, plant and equipment classification to investment properties, the deemed cost of the property for subsequent accounting is its carrying amount.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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

Intangible Assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful

life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

Intangible assets acquired in a business combination

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

Derecognition of intangible assets

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

Before the Company recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Company expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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 FVTPL are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured 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. Fair value is determined in the manner described in Note 35.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost, other current financial assets and other receivables and refundable deposits, are measured at amortized cost, which equals to their gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i. Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- ii. Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is in contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when such financial assets are either held for trading or designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss 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 dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.

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

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amounts of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

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

c) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market, other current financial assets, other receivables and refundable deposits) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

2018

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), investments in debt instruments that are measured at FVTOCI, lease receivables, as well as contract assets.

The Company always recognizes lifetime Expected Credit Losses (i.e. ECLs) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECLs represents the expected credit losses that will result from all possible default events over the expected life of the financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

Financial assets, other than those at fair value through profit or loss, 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, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables and other receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset 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 carried 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 any available-for-sale 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, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

When an available-for-sale 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 available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is 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 measured at cost, the amount of the impairment loss is measured as the difference between such an 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 a 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 trade receivables and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

3) 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.

Before 2018, 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 is recognized in profit or loss. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, 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 is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Equity instruments

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

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

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

c. Financial liabilities

1) Subsequent measurement

Except the following situation, all financial liabilities are measured at amortized cost using the effective interest method:

- Financial liabilities at FVTPL

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

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividends paid on the financial liability. Fair value is determined in the manner described in Note 35.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Derivative financial instruments

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

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

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. From 2018, derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) 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 host contracts are not measured at FVTPL.

Hedge Accounting

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

From 2018, if the Company separates the forward element of a forward contract and designates only the change in the value of the spot element of the forward contract as the hedging instrument, the Company can elect to recognize the changes in value of the undesignated aligned forward element and foreign currency basis spread directly in profit or loss or in other comprehensive income and accumulate it in other equity (i.e. gain or loss on hedging instruments - deferred hedging cost).

For transaction-related hedged items, the amounts accumulated in other equity (i.e. gain or loss on hedging instruments - deferred hedging costs) are reclassified to profit or loss at the same time when the expected cash flows of the hedged item affects profit or loss, or are included within the initial cost of the asset or liability if the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability. For time period-related hedged items, amounts accumulated in other equity are amortized on a systematic and rational basis over the period during which the hedge adjustment for the designated elements of derivatives could affect profit or loss.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

Before 2018, hedge accounting was discontinued prospectively when the Company revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. From 2018, the Company discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

Provisions, including those arising from contractual obligation specified in service concession arrangement to maintain or restore infrastructure before it is handed over to the grantor, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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

a. Warranty provisions

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

b. Provisions for contingent loss on purchase orders

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

Revenue Recognition

2018

The Company identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

a. Revenue from the sale of goods

Revenue from the sale of goods comes from sales of electronic equipment. Sales of electronic equipment are recognized as revenue when the goods are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently.

The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

b. Revenue from the rendering of services

Revenue from the rendering of services comes from product design, device examinations, and extended warranty services.

c. Licensing revenue

The Company does not promise to undertake activities that will change the functionality of the software in a software licensing transaction. Furthermore, the software remains functional without the updates and the technical support. Therefore, the upfront royalty is recognized as revenue when the patents subsequent usage occurs.

2017

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. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a. The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b. The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c. The amount of revenue can be measured reliably;
- d. It is probable that the economic benefits associated with the transaction will flow to the Company; and
- e. 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 the materials' ownership.

Leasing

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

Leasehold land and building for own use

When a lease includes both land and building elements, the Company assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Company. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

Employee Benefits

Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and net interest on the net defined benefit liability (asset)) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that remeasurement is recognized in profit or loss.

Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

Share-based Payment Arrangements

Share-based payment transactions of the Company

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

Restricted shares for employees are recognized as an unearned employ's bonus on the date of grant, with a corresponding increase in capital surplus - restricted shares for employees.

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

Taxation

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

a. Current tax

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

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

b. Deferred tax

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

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

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

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

c. Current and deferred tax

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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Impairment of tangible and intangible assets other than goodwill

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

Impairment loss on tangible and intangible assets other than goodwill recognized were NT\$2,317,547 thousand and NT\$444,972 thousand for the years ended December 31, 2018 and 2017, respectively.

b. 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, 2018 and 2017, the carrying amounts of inventories were NT\$3,301,645 thousand and NT\$7,381,426 thousand, respectively.

c. 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 accounting estimates. Any change in global economy, industry environment and regulations might cause material adjustments to deferred tax assets.

As of December 31, 2018 and 2017, the carrying amounts of deferred tax assets were NT\$3,957,060 thousand and NT\$8,990,648 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2018	2017
Cash on hand	\$ 1,559	\$ 1,901
Checking accounts and demand deposits	10,557,535	8,502,868
Time deposits (with original maturities less than three months)	<u>13,890,454</u>	<u>1,938,458</u>
	<u>\$ 24,449,548</u>	<u>\$ 10,443,227</u>

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

	<u>December 31</u>	
	2018	2017
Bank balance	0.01%-0.62%	0.01%-0.59%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2018	2017
<u>Financial assets</u>		
Financial assets held for trading		
Derivative financial assets (not under hedge accounting)		
Foreign exchange contracts	\$ 83,411	\$ 65,199
Financial assets mandatorily classified as at FVTPL		
Derivative financial assets (not under hedge accounting)		
Convertible bonds	214,340	-
Warrants	<u>22,124</u>	<u>-</u>
	<u>\$ 319,875</u>	<u>\$ 65,199</u>

(Continued)

	<u>December 31</u>	
	2018	2017
Current	\$ 83,411	\$ 65,199
Non-current	<u>236,464</u>	<u>-</u>
	<u>\$ 319,875</u>	<u>\$ 65,199</u>

Financial liabilities - current

Financial liabilities held for trading

Derivative financial liabilities (not under hedge accounting)

Foreign exchange contracts	<u>\$ 82,156</u>	<u>\$ 75,184</u> (Concluded)
----------------------------	------------------	---------------------------------

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2018</u>				
Foreign exchange contracts	Sell	USD/NTD	2019.1.9	USD 120,000
Foreign exchange contracts	Sell	EUR/USD	2019.1.23-2019.3.6	EUR 16,000
Foreign exchange contracts	Sell	JPY/USD	2019.1.9-2019.3.8	JPY 3,200,000
Foreign exchange contracts	Sell	GBP/USD	2019.1.9-2019.3.6	GBP 28,000
Foreign exchange contracts	Sell	CAD/USD	2019.1.23	CAD 6,000
Foreign exchange contracts	Sell	AUD/USD	2019.1.16	AUD 1,000
Foreign exchange contracts	Sell	RMB/USD	2019.1.11-2019.3.6	RMB 404,984
Foreign exchange contracts	Buy	RMB/USD	2019.1.9-2019.3.6	RMB 1,317,332
Foreign exchange contracts	Buy	JPY/USD	2019.1.9-2019.2.15	JPY 1,718,335
Foreign exchange contracts	Buy	USD/NTD	2019.1.9-2019.3.8	USD 594,500
Foreign exchange contracts	Buy	EUR/USD	2019.1.9-2019.3.6	EUR 40,000
Foreign exchange contracts	Buy	GBP/USD	2019.1.9-2019.2.22	GBP 30,000
Foreign exchange contracts	Buy	AUD/USD	2019.1.16-2019.2.22	AUD 9,000
<u>December 31, 2017</u>				
Foreign exchange contracts	Sell	SGD/USD	2018.01.03	SGD 3,000
Foreign exchange contracts	Sell	JPY/USD	2018.01.10-2018.02.14	JPY 4,100,000
Foreign exchange contracts	Sell	GBP/USD	2018.01.19	GBP 3,000
Foreign exchange contracts	Sell	CAD/USD	2018.01.26	CAD 3,500
Foreign exchange contracts	Sell	EUR/USD	2018.01.10-2018.01.19	EUR 8,000
Foreign exchange contracts	Sell	AUD/USD	2018.02.09	AUD 1,000
Foreign exchange contracts	Buy	RMB/USD	2018.01.12-2018.02.09	RMB 750,648
Foreign exchange contracts	Buy	USD/NTD	2018.01.10-2018.03.14	USD 440,500
Foreign exchange contracts	Buy	JPY/USD	2018.01.19	JPY 2,818,335
Foreign exchange contracts	Buy	EUR/USD	2018.01.19-2018.01.26	EUR 20,000
Foreign exchange contracts	Buy	AUD/USD	2018.02.09	AUD 10,000

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING - 2017

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

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

	For the Year Ended December 31, 2017
Revenues	\$ (4,389)
Other gains and losses	<u>3,538</u>
	<u>\$ (851)</u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

Investments in Equity Instruments at FVTOCI

	December 31, 2018
Domestic investments	
Listed shares and emerging market shares	\$ 83,383
Unlisted shares	<u>388,700</u>
	<u>472,083</u>
Foreign investments	
Listed shares	409,412
Unlisted shares	1,103,891
Unlisted beneficiary certificate	<u>749,046</u>
	<u>2,262,349</u>
	<u>\$ 2,734,432</u>
Current	\$ 409,412
Non-current	<u>2,325,020</u>
	<u>\$ 2,734,432</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term business development strategic purposes. Accordingly, the Company's management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3 and Note 10 for information relating to their reclassification and comparative information for 2017.

10. FINANCIAL ASSETS MEASURED AT COST

	December 31, 2017
Domestic unlisted equity investments	\$ 626,281
Overseas unlisted equity investments	1,779,994
Overseas unlisted beneficiary certificates	649,223
Derivative financial instruments - convertible bonds	116,226
Derivative financial instruments - overseas warrants	<u>15,516</u>
	<u>\$ 3,187,240</u>
Classified according to financial asset measurement categories	
Financial assets at fair value through profit or loss	\$ 131,742
Available-for-sale financial assets	<u>3,055,498</u>
	<u>\$ 3,187,240</u>

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

For the year ended December 31, 2017, the Company determined that the recoverable amounts of financial assets measured at cost were less than its carrying amounts, and thus recognized an impairment loss of NT\$109,779 thousand classified as other gains and losses, please refer to Note 27.

11. OTHER FINANCIAL ASSETS

	December 31	
	2018	2017
Time deposits with original maturities more than three months	<u>\$ 17,069,473</u>	<u>\$ 7,988,363</u>
Current	\$ 16,915,835	\$ 7,988,363
Non-current	<u>153,638</u>	<u>-</u>
	<u>\$ 17,069,473</u>	<u>\$ 7,988,363</u>

For details of pledged other financial assets, please refer to Note 37.

12. TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Trade and overdue receivables</u>		
At amortized cost		
Trade receivables	\$ 2,055,256	\$ 9,023,748
Trade receivables - related parties	516	22,400
Overdue receivables	1,840,947	1,840,947
Less: Allowances for impairment loss	(372,622)	(509,052)
Less: Allowances for impairment loss - overdue receivables	<u>(1,840,947)</u>	<u>(1,840,947)</u>
	<u>\$ 1,683,150</u>	<u>\$ 8,537,096</u>
Current	\$ 1,683,150	\$ 8,537,096
Non-current	<u>-</u>	<u>-</u>
	<u>\$ 1,683,150</u>	<u>\$ 8,537,096</u>
<u>Other receivables</u>		
Receivables from disposal of investments	\$ 1,307,435	\$ 1,326,104
Interest receivables	344,949	248,786
VAT refund receivables	77,375	38,350
Others	21,647	41,799
Less: Allowances for impairment loss	<u>(1,529,699)</u>	<u>(1,551,542)</u>
	<u>\$ 221,707</u>	<u>\$ 103,497</u>
Current - other receivables	\$ 221,707	\$ 103,497
Non-current - other receivables	<u>-</u>	<u>-</u>
	<u>\$ 221,707</u>	<u>\$ 103,497</u>

a. Trade receivables at amortized cost

For the year ended December 31, 2018

The average credit period of the sale of goods was 30-75 days. No interest was charged on trade receivables for the first 75 days from the date of the invoice. Thereafter, interest was charged at 1-18% per annum on the outstanding balance. The Company adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Company uses other publicly available financial information or its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits annually.

In order to minimize credit risk, the Company's management has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Company reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the Company's management believes the Company's credit risk was significantly reduced.

The Company applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss allowances for all trade receivables. The expected credit losses on trade receivables are estimated using an allowance matrix with reference to past default experiences of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Company's allowance matrix.

December 31, 2018

	Non Past Due	1-90 Days	91-180 Days	Over 181 Days	Total
Expected credit loss rate	2.73%	4.67%	14.85%	100%	
Gross carrying amount	\$ 1,533,337	\$ 79,247	\$ 136,367	\$ 306,821	\$ 2,055,772
Loss allowance (Lifetime ECL)	<u>(41,858)</u>	<u>(3,697)</u>	<u>(20,246)</u>	<u>(306,821)</u>	<u>(372,622)</u>
Amortized cost	<u>\$ 1,491,479</u>	<u>\$ 75,550</u>	<u>\$ 116,121</u>	<u>\$ -</u>	<u>\$ 1,683,150</u>

The movements of the loss allowance of trade receivables and overdue receivables were as follows:

	For the Year Ended December 31, 2018
Balance at January 1, 2018 (per IAS 39)	\$ 2,349,999
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 (per IFRS 9)	2,349,999
Add: Net remeasurement of loss allowance	82,964
Less: Amounts written off	<u>(219,394)</u>
Balance at December 31, 2018	<u>\$ 2,213,569</u>

For the year ended December 31, 2017

The Company applied the same credit policy in 2018 and 2017. The credit period on the sale 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 the customers. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. For customers with low credit risk, the Company has recognized an allowance for doubtful debts of 1%-5% against receivables past due beyond 31-90 days and of 5%-100% against receivables past due beyond 91 days. For customers with high credit risk, the Company has recognized an allowance for impairment loss of 10-100% against receivables past due more than 31 days.

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

The concentration of credit risk is limited due to the fact that the customer base is diverse except for a single major customer. The Company will evaluate the level of credit risk periodically and reconcile the receivables in order to control the credit condition of the single major customer.

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

Trade receivables aged over one year were reclassified as overdue receivables which were recognized as long-term receivables.

Aging of trade receivables

	December 31, 2017
1-90 days	\$ 244,443
91-180 days	63,613
Over 181 days	<u>340,280</u>
	<u>\$ 648,336</u>

The above aging schedule was based on the past due days from end of credit term.

Aging of impaired trade receivables

	December 31, 2017
1-90 days	\$ 139,284
91-180 days	-
Over 181 days	<u>-</u>
	<u>\$ 139,284</u>

The above aging of trade receivables after deducting the allowance for impairment loss is presented based on the past due days from end of credit term.

The movements of the allowance for doubtful trade receivables and overdue receivables were as follows:

	For the Year Ended December 31, 2017
Balance, beginning of the year	\$ 2,712,869
Less: Impairment loss reversed	<u>(362,870)</u>
Balance, end of the year	<u>\$ 2,349,999</u>

b. Other receivables

Receivables from the disposal of investments are derived from the sale of shares of Saffron Media Group Ltd. in 2013. While the receivables had not been collected yet, the loss allowance was recognized based on the credit risk as of December 31, 2018.

Others were primarily prepayments on behalf of vendors or customers and grants from suppliers.

The movements of the loss allowance of other receivables are as follows:

	For the Year Ended December 31, 2018
Balance at January 1, 2018 (per IAS 39)	\$ 1,551,542
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 (per IFRS 9)	1,551,542
Foreign exchange gains and losses	<u>(21,843)</u>
Balance at December 31, 2018	<u>\$ 1,529,699</u>

The movements of the allowance for doubtful other receivables were are as follows:

	For the Year Ended December 31, 2018
Balance at January 1, 2017	\$ 1,475,130
Foreign exchange gains and losses	<u>76,412</u>
Balance at December 31, 2017	<u>\$ 1,551,542</u>

13. INVENTORIES

	December 31	
	2018	2017
Finished goods	\$ 917,762	\$ 1,602,962
Work-in-process	38,522	124,318
Semi-finished goods	446,472	1,094,183
Raw materials	1,865,266	4,403,010
Inventory in transit	<u>33,623</u>	<u>156,953</u>
	<u>\$ 3,301,645</u>	<u>\$ 7,381,426</u>

The cost of inventories recognized as operation costs for the years ended December 31, 2018 and 2017 included inventory write-downs of NT\$1,057,004 thousand and NT\$5,713,443 thousand, respectively.

14. PREPAYMENTS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Net input VAT	\$ 522,315	\$ 480,516
Prepayments to suppliers	171,601	9,422
Royalties	28,429	2,633,750
Prepaid equipment	12,888	52,744
Others	<u>464,676</u>	<u>800,287</u>
	<u>\$ 1,199,909</u>	<u>\$ 3,976,719</u>
Current	\$ 1,160,299	\$ 1,742,986
Non-current	<u>39,610</u>	<u>2,233,733</u>
	<u>\$ 1,199,909</u>	<u>\$ 3,976,719</u>

Prepayments for royalties were primarily for getting royalty rights and were classified as current or non-current in accordance with their nature. For the year ended December 31, 2018, the Company determined that the carrying amount of some of the prepayments for software and royalties were expected to be unrecoverable, and thus recognized an impairment loss of NT\$2,248,030 thousand classified as other gains and losses, please refer to Note 27. For details of content of contracts, please refer to Note 40.

15. NON-CURRENT ASSETS HELD FOR SALE

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Land and buildings held for sale	<u>\$ -</u>	<u>\$ 1,647,763</u>

On March 15, 2017, the HTC's Board of Directors passed a resolution to sell land and factory in Shanghai to Shanghai Xingbao Information Technology Co., Ltd. at the amount of RMB630,000 thousand. The trading amount of RMB315,000 thousand has been collected and recognized as advance receipts. The transfer process was completed in April 2018. The amount of net gains from the disposal of non-current assets held for sale was NT\$1,077,246 thousand, please refer to Note 27 for the details.

16. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The consolidated entities as of December 31, 2018 and 2017 were as follows:

Investor	Investee	Main Businesses	<u>% of Ownership</u>		Remark
			<u>2018</u>	<u>2017</u>	
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding company and general investing activities	100.00	100.00	-
	Communication Global Certification Inc.	Import of controlled telecommunications radio-frequency devices and software services	-	100.00	1)
	High Tech Computer Asia Pacific Pte. Ltd.	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC Investment Corporation	General investing activities	100.00	100.00	-
	PT. High Tech Computer Indonesia	Marketing, repair and after-sales services	1.00	1.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			December 31	2017	
			2018	2017	
	HTC I Investment Corporation	General investing activities	-	100.00	3)
	HTC Holding Cooperatief U.A.	International holding company	0.01	0.01	-
	HTC Investment One (BVI) Corporation	Holding S3 Graphics Co., Ltd. and general investing activities	100.00	100.00	-
	HTC Investment (BVI) Corporation	General investing activities	100.00	100.00	-
	HTC VIVE Holding (BVI) Corp.	International holding company	100.00	100.00	-
	HTC VIVE Investment (BVI) Corp.	General investing activities	100.00	100.00	-
	DeepQ Holding (BVI) Corp.	International holding company	100.00	100.00	-
	HTC VR Content (BVI) Corp.	"	100.00	100.00	-
	HTC Smartphone (BVI) Corp.	"	100.00	100.00	-
H.T.C. (B.V.I.) Corp.	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart mobile devices	100.00	100.00	-
High Tech Computer Asia Pacific Pte. Ltd.	HTC (Australia and New Zealand) PTY. Ltd.	Marketing, repair and after-sales services	100.00	100.00	-
	HTC Philippines Corporation	"	99.99	99.99	-
	PT. High Tech Computer Indonesia	"	99.00	99.00	-
	HTC (Thailand) Limited	"	100.00	100.00	-
	HTC India Private Ltd.	"	99.00	99.00	-
High Tech Computer Asia Pacific Pte. Ltd.	HTC Malaysia Sdn. Bhd.	Marketing, repair and after-sales services	100.00	100.00	-
	HTC Communication Co., Ltd.	Manufacture and sale of smart mobile devices and after-sales services	100.00	100.00	-
	HTC HK, Limited	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC Holding Cooperatief U.A.	International holding company	99.99	99.99	-
	HTC Communication Technologies (SH)	Design, research and development of application software	100.00	100.00	-
	HTC Vietnam Services One Member Limited Liability Company	Marketing, repair and after-sales services	100.00	100.00	-
	HTC Myanmar Company Limited	"	99.00	99.00	-
HTC Investment Corporation	Yoda Co., Ltd.	Operation of restaurant business, parking lot and building cleaning services	-	100.00	3)
HTC Investment One (BVI) Corporation	S3 Graphics Co., Ltd.	Design, research and development of graphics technology	100.00	100.00	-
HTC Communication Technologies (SH)	HTC Communication (BJ) Tech Co.	Design, research and development of application software	100.00	100.00	-
HTC HK, Limited	HTC Corporation (Shanghai WGQ)	Smart mobile devices examination and after-sale services and technique consultations	100.00	100.00	-
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart mobile devices	100.00	100.00	-
	HTC Myanmar Company Limited	Marketing, repair and after-sales services	1.00	1.00	-
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC India Private Ltd.	Marketing, repair and after-sales services	1.00	1.00	-
	HTC South Eastern Europe Limited Liability Company	"	0.67	0.67	-
	HTC Communication Solutions Mexico, S.A DE C.V.	"	1.00	1.00	-
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	1.00	1.00	-
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	International holding company Marketing, repair and after-sales services	100.00	100.00	-
	HTC BRASIL	Marketing, repair and after-sales services	99.99	99.99	-
	HTC Belgium BVBA/SPRL	"	100.00	100.00	-
	HTC NIPPON Corporation	Sale of smart mobile devices	100.00	100.00	-
	HTC FRANCE CORPORATION	International holding company; marketing, repair and after-sales services	100.00	100.00	-
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	99.33	99.33	-
	HTC Nordic ApS.	"	100.00	100.00	-
	HTC Italia SRL	"	100.00	100.00	-
	HTC Germany GmbH	"	100.00	100.00	-
	HTC Iberia, S.L.	"	100.00	100.00	-
	HTC Poland sp. z.o.o.	"	100.00	100.00	-
	HTC Communication Canada, Ltd.	"	100.00	100.00	-
	HTC Communication Sweden AB	"	100.00	100.00	-
	HTC Luxembourg S.a.r.l.	Online/download media services	100.00	100.00	-
	HTC Middle East FZ-LLC	Marketing, repair and after-sales services	100.00	100.00	-
	HTC Communication Solutions Mexico, S.A DE C.V.	"	99.00	99.00	-
	HTC Servicios DE Operacion Mexico, S.A DE C.V.	Human resources management	99.00	99.00	-
	HTC Czech RC s.r.o.	Smart mobile devices examination and after-sale services and technique consultations	-	100.00	4)
HTC EUROPE CO., LTD.	HTC America Holding Inc.	International holding company	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			December 31 2018	December 31 2017	
HTC America Holding Inc.	HTC America Inc.	Sale of smart mobile devices	100.00	100.00	-
	One & Company Design, Inc.	Design, research and development of application software	100.00	100.00	-
	HTC America Innovation Inc.	"	100.00	100.00	-
	HTC America Content Services, Inc.	Online/download media services	100.00	100.00	-
	Dashwire, Inc.	Design and management of cloud synchronization technology	100.00	100.00	-
	Inquisitive Minds, Inc.	Development and sale of digital education platform	100.00	100.00	-
HTC VIVE Holding (BVI) Corp.	HTC VIVE TECH (BVI) Corp.	International holding company	100.00	100.00	-
HTC VIVE TECH (BVI) Corp.	HTC VIVE TECH Corp.	Research, development and sale of virtual reality devices	100.00	100.00	-
	HTC VIVE TECH (HK) Limited	"	100.00	100.00	-
HTC VIVE TECH (HK) Limited	HTC VIVE TECH (UK) Limited	Research, development and sale of virtual reality devices	100.00	100.00	-
	HTC VIVE TECH (Beijing)	"	100.00	100.00	-
DeepQ Holding (BVI) Corp.	DeepQ (BVI) Corp.	International holding company	100.00	100.00	-
DeepQ (BVI) Corp.	DeepQ Technology Corp.	Medical technology and health care	100.00	100.00	-
	DeepQ Technology (Beijing)	Development and marketing of software technology	100.00	-	2)
HTC Investment (BVI) Corporation	VRChat, Inc.	Development of virtual reality contents	51.26	53.16	-
	VRChat Ca. Development Inc.	Development of virtual reality contents	100.00	100.00	-
HTC VR Content (BVI) Corp.	Uomo Vitruviano Corp.	Development of virtual reality contents	100.00	100.00	-

(Concluded)

Remark:

- 1) The Company disposed of 100% of its equity interest in Communication Global Certification Inc. in January 2018. For details of the disposal, refer to Note 31.
 - 2) DeepQ Technology (Beijing) was incorporated in March 2018.
 - 3) Both the dissolution of HTC Investment Corporation and Yoda Co., Ltd. were approved in their shareholders' meetings held in November 2017, and the date of dissolution was set on November 30, 2017. Both of their liquidation processes were completed on April 30, 2018.
 - 4) The liquidation process of HTC Czech RC s.r.o. has been completed on December 18, 2018.
- b. Subsidiaries excluded from the consolidated financial statements: None.
- c. Details of subsidiaries that have material non-controlling interests: None.

17. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2018	2017
Investment in associates	<u>\$ 446,133</u>	<u>\$ 413,120</u>

Investments in Associates - Associates That Are Not Individually Material

	<u>December 31</u>	
	2018	2017
<u>Unlisted equity investments</u>		
East West Artists, LLC	\$ 25,778	\$ 26,834
Steel Wool Games, Inc.	89,641	99,921
Surgical Theater, LLC	265,546	274,864
Gui Zhou Wei Ai Educational Technology Co., Ltd.	<u>65,168</u>	<u>11,501</u>
	<u>\$ 446,133</u>	<u>\$ 413,120</u>

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

Name of Associates	<u>December 31</u>	
	2018	2017
East West Artist, LLC	30.00%	30.00%
Steel Wool Games, Inc.	49.00%	49.00%
Surgical Theater, LLC	16.68%	16.68%
Gui Zhou Wei Ai Educational Technology Co., Ltd.	23.20%	25.00%

Aggregate information of associates that are not individually material:

	<u>For the Year Ended December 31</u>	
	2018	2017
The Company's share of:		
Loss from continuing operations	\$ (36,087)	\$ (87,255)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive loss for the year	<u>\$ (36,087)</u>	<u>\$ (87,255)</u>

Investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been audited. The Company's management believes there is no material impact arising from applying the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income as the investees' financial statements have not been audited.

18. PROPERTY, PLANT AND EQUIPMENT

	<u>December 31</u>	
	2018	2017
Carrying amounts		
Land	\$ 4,673,376	\$ 4,676,726
Buildings	2,949,910	5,260,727
Machinery and equipment	492,239	417,379
Other equipment	<u>310,361</u>	<u>443,781</u>
	<u>\$ 8,425,886</u>	<u>\$ 10,798,613</u>

Movements of property, plant and equipment for the years ended December 31, 2018 and 2017 were as follows:

	2018				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Balance, beginning of the year	\$ 4,676,726	\$ 7,383,032	\$ 12,901,808	\$ 2,219,343	\$ 27,180,909
Additions	-	79,642	417,355	94,756	591,753
Disposals	-	(48,387)	(7,076,339)	(464,862)	(7,589,588)
Reclassified as non-current assets held for sale	-	-	(2,619)	-	(2,619)
Reclassified as investment properties	-	(2,872,143)	-	-	(2,872,143)
Disposal of subsidiary	-	-	(824,206)	(48,758)	(872,964)
Effect of foreign currency exchange differences	(3,350)	(12,452)	(14,267)	1,799	(28,270)
Balance, end of the year	<u>4,673,376</u>	<u>4,529,692</u>	<u>5,401,732</u>	<u>1,802,278</u>	<u>16,407,078</u>
<u>Accumulated depreciation</u>					
Balance, beginning of the year	-	2,122,305	11,640,682	1,757,876	15,520,863
Depreciation expenses	-	187,640	155,334	141,384	484,358
Disposals	-	(37,505)	(6,373,131)	(403,258)	(6,813,894)
Reclassified as non-current assets held for sale	-	-	(1,885)	-	(1,885)
Reclassified as investment properties	-	(690,702)	-	-	(690,702)
Disposal of subsidiary	-	-	(750,842)	(16,952)	(767,794)
Effect of foreign currency exchange differences	-	(1,956)	(11,141)	2,107	(10,990)
Balance, end of the year	<u>-</u>	<u>1,579,782</u>	<u>4,659,017</u>	<u>1,481,157</u>	<u>7,719,956</u>
<u>Accumulated impairment</u>					
Balance, beginning of the year	-	-	843,747	17,686	861,433
Impairment loss	-	-	936	35,208	36,144
Disposals	-	-	(593,751)	(42,102)	(635,853)
Effect of foreign currency exchange differences	-	-	(456)	(32)	(488)
Balance, end of the year	<u>-</u>	<u>-</u>	<u>250,476</u>	<u>10,760</u>	<u>261,236</u>
Net book value, end of the year	<u>\$ 4,673,376</u>	<u>\$ 2,949,910</u>	<u>\$ 492,239</u>	<u>\$ 310,361</u>	<u>\$ 8,425,886</u>
2017					
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
<u>Cost</u>					
Balance, beginning of the year	\$ 4,674,792	\$ 7,321,116	\$ 13,614,889	\$ 2,301,452	\$ 27,912,249
Additions	-	54,833	128,364	65,462	248,659
Disposals	-	-	(743,914)	(114,964)	(858,878)
Reclassification	-	-	(59,186)	-	(59,186)
Effect of foreign currency exchange differences	1,934	7,083	(38,345)	(32,607)	(61,935)
Balance, end of the year	<u>4,676,726</u>	<u>7,383,032</u>	<u>12,901,808</u>	<u>2,219,343</u>	<u>27,180,909</u>
<u>Accumulated depreciation</u>					
Balance, beginning of the year	-	1,847,304	11,816,261	1,686,963	15,350,528
Depreciation expenses	-	273,928	535,827	190,790	1,000,545
Disposals	-	-	(659,429)	(100,452)	(759,881)
Reclassification	-	-	(21,013)	-	(21,013)
Effect of foreign currency exchange differences	-	1,073	(30,964)	(19,425)	(49,316)
Balance, end of the year	<u>-</u>	<u>2,122,305</u>	<u>11,640,682</u>	<u>1,757,876</u>	<u>15,520,863</u>
<u>Accumulated impairment</u>					
Balance, beginning of the year	-	-	530,786	5,439	536,225
Impairment loss	-	-	321,138	14,055	335,193
Disposals	-	-	(831)	(3)	(834)
Reclassification	-	-	(7,868)	-	(7,868)
Effect of foreign currency exchange differences	-	-	522	(1,805)	(1,283)
Balance, end of the year	<u>-</u>	<u>-</u>	<u>843,747</u>	<u>17,686</u>	<u>861,433</u>
Net book value, end of the year	<u>\$ 4,676,726</u>	<u>\$ 5,260,727</u>	<u>\$ 417,379</u>	<u>\$ 443,781</u>	<u>\$ 10,798,613</u>

For the years ended December 31, 2018 and 2017, the Company determined that the carrying amounts of some of equipment were expected to be unrecoverable. Thus, it recognized impairment losses of NT\$36,144 thousand and NT\$335,193 thousand classified as other gains and losses, respectively. Refer to Note 27 for details.

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

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

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

The Company leased part of the buildings in February and November 2018. The leased assets were reclassified as investment properties because the standards related to investment properties are applied on leased assets. For the details, refer to Note 19.

There were no capitalized interests for the years ended December 31, 2018 and 2017.

19. INVESTMENT PROPERTIES, NET

Movement of investment properties, net for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
<u>Cost</u>		
Balance, beginning of the year	\$ -	\$ 1,829,827
Eliminations	-	(1,504)
Reclassification	2,872,143	(1,791,715)
Effect of foreign currency exchange differences	-	(36,608)
Balance, end of the year	<u>2,872,143</u>	<u>-</u>
<u>Accumulated depreciation</u>		
Balance, beginning of the year	-	302,826
Depreciation expense	91,215	5,936
Eliminations	-	(1,504)
Reclassification	690,702	(301,200)
Effect of foreign currency exchange differences	-	(6,058)
Balance, end of the year	<u>781,917</u>	<u>-</u>
Net book value, end of the year	<u>\$ 2,090,226</u>	<u>\$ -</u>

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	40-50 years
Electricity distribution system	20 years
Air-conditioning	5-10 years
Others	3-5 years

The resolution to dispose the investment properties was approved in March 2017 and the assets were reclassified as non-current assets held for sale. The transfer process has been completed in April 2018, please refer to Note 15 for the details.

The determination of fair value for the investment properties leased in December 31, 2018 was performed by independent appraisers, and the fair value was measured using Level 3 inputs. The fair values as of December 31, 2018 was as follows:

	December 31, 2018
Fair value	<u>\$ 2,743,226</u>

20. INTANGIBLE ASSETS

	<u>December 31</u>	
	2018	2017
Carrying amounts		
Patents	\$ 1,060,183	\$ 2,154,987
Goodwill	69,021	67,025
Other intangible assets	<u>52,052</u>	<u>93,429</u>
	<u>\$ 1,181,256</u>	<u>\$ 2,315,441</u>

Movements of intangible assets for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Cost</u>				
Balance, beginning of the year	\$ 11,467,990	\$ 713,250	\$ 1,753,620	\$ 13,934,860
Additions	-	-	53,725	53,725
Effect of foreign currency exchange differences	<u>266,550</u>	<u>16,049</u>	<u>12,468</u>	<u>295,067</u>
Balance, end of the year	<u>11,734,540</u>	<u>729,299</u>	<u>1,819,813</u>	<u>14,283,652</u>
<u>Accumulated amortization</u>				
Balance, beginning of the year	9,201,918	-	1,497,864	10,699,782
Amortization expenses	1,137,160	-	61,128	1,198,288
Effect of foreign currency exchange differences	<u>224,194</u>	<u>-</u>	<u>8,257</u>	<u>232,451</u>
Balance, end of the year	<u>10,563,272</u>	<u>-</u>	<u>1,567,249</u>	<u>12,130,521</u>
<u>Accumulated impairment</u>				
Balance, beginning of the year	111,085	646,225	162,327	919,637
Impairment loss	-	-	33,373	33,373
Effect of foreign currency exchange differences	<u>-</u>	<u>14,053</u>	<u>4,812</u>	<u>18,865</u>
Balance, end of the year	<u>111,085</u>	<u>660,278</u>	<u>200,512</u>	<u>971,875</u>
Net book value, end of the year	<u>\$ 1,060,183</u>	<u>\$ 69,021</u>	<u>\$ 52,052</u>	<u>\$ 1,181,256</u>

	2017			
	Patents	Goodwill	Other Intangible Assets	Total
<u>Cost</u>				
Balance, beginning of the year	\$ 12,197,140	\$ 684,668	\$ 1,840,154	\$ 14,721,962
Additions	-	69,186	566	69,752
Eliminations	-	-	(7,093)	(7,093)
Disposals	-	-	(38,977)	(38,977)
Effect of foreign currency exchange differences	<u>(729,150)</u>	<u>(40,604)</u>	<u>(41,030)</u>	<u>(810,784)</u>
Balance, end of the year	<u>11,467,990</u>	<u>713,250</u>	<u>1,753,620</u>	<u>13,934,860</u>
<u>Accumulated amortization</u>				
Balance, beginning of the year	8,538,904	-	1,333,403	9,872,307
Amortization expenses	1,148,841	-	237,796	1,386,637
Eliminations	-	-	(7,093)	(7,093)
Disposals	-	-	(38,977)	(38,977)
Effect of foreign currency exchange differences	<u>(485,827)</u>	<u>-</u>	<u>(27,265)</u>	<u>(513,092)</u>
Balance, end of the year	<u>9,201,918</u>	<u>-</u>	<u>1,497,864</u>	<u>10,699,782</u>
<u>Accumulated impairment</u>				
Balance, beginning of the year	111,085	684,668	175,546	971,299
Effect of foreign currency exchange differences	<u>-</u>	<u>(38,443)</u>	<u>(13,219)</u>	<u>(51,662)</u>
Balance, end of the year	<u>111,085</u>	<u>646,225</u>	<u>162,327</u>	<u>919,637</u>
Net book value, end of the year	<u>\$ 2,154,987</u>	<u>\$ 67,025</u>	<u>\$ 93,429</u>	<u>\$ 2,315,441</u>

The Company owns patents of graphics technologies. As of December 31, 2018 and 2017, the carrying amounts of such patents were NT\$1,056,258 thousand and NT\$2,144,678 thousand, respectively. The patents will be fully amortized over their remaining economic lives.

21. NOTE AND TRADE PAYABLES

	December 31	
	2018	2017
Note payables	\$ 560	\$ 27
Trade payables	9,808,128	14,568,235
Trade payables - related parties	<u>4,159</u>	<u>960</u>
	<u>\$ 9,812,847</u>	<u>\$ 14,569,222</u>

The average term of payment is two to four months. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. According to the payment obligation adjusted by periodical negotiation with suppliers, it was recognized as an adjustment to operating costs or expenses by its nature.

22. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Other payables</u>		
Accrued expenses	\$ 9,189,958	\$ 11,624,987
Payables for purchase of equipment	<u>33,335</u>	<u>56,903</u>
	<u>\$ 9,223,293</u>	<u>\$ 11,681,890</u>
<u>Other current liabilities</u>		
Advance receipts	\$ 638,340	\$ 2,480,454
Agency receipts	102,714	132,387
Others	<u>212,393</u>	<u>237,872</u>
	<u>\$ 953,447</u>	<u>\$ 2,850,713</u>

Accrued Expenses

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Marketing	\$ 4,071,201	\$ 5,964,240
Salaries, bonuses and compensation	2,173,295	2,004,912
Materials and molding expenses	1,073,179	1,796,104
Services	958,328	766,310
Import, export and freight	188,684	181,885
Insurance	72,465	111,477
Repairs, maintenance and sundry purchase	46,872	76,785
Others	<u>605,934</u>	<u>723,274</u>
	<u>\$ 9,189,958</u>	<u>\$ 11,624,987</u>

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

23. PROVISIONS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Warranties	\$ 1,943,976	\$ 2,795,933
Provisions for contingent loss on purchase orders	<u>60,214</u>	<u>581,268</u>
	<u>\$ 2,004,190</u>	<u>\$ 3,377,201</u>

Movement of provisions for the years ended December 31, 2018 and 2017 were as follows:

	2018		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	\$ 2,795,933	\$ 581,268	\$ 3,377,201
Provisions recognized (reversed)	695,360	(408,159)	287,201
Usage	(1,546,707)	(112,895)	(1,659,602)
Effect of foreign currency exchange differences	<u>(610)</u>	<u>-</u>	<u>(610)</u>
Balance, end of the year	<u>\$ 1,943,976</u>	<u>\$ 60,214</u>	<u>\$ 2,004,190</u>

	2017		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	\$ 3,010,969	\$ 373,342	\$ 3,384,311
Provisions recognized	3,065,641	274,159	3,339,800
Usage	(3,268,216)	(66,233)	(3,334,449)
Effect of foreign currency exchange differences	<u>(12,461)</u>	<u>-</u>	<u>(12,461)</u>
Balance, end of the year	<u>\$ 2,795,933</u>	<u>\$ 581,268</u>	<u>\$ 3,377,201</u>

The Company provides warranty service to its customers. The warranty period varies by product and is generally one year to two years. The warranties are estimated on the basis of evaluation of the products under warranty, historical warranty-trends, and pertinent factors.

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

24. 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 makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The Company has defined benefit plans for all qualified employees of HTC. Besides, the employees of the Company's subsidiary are members of a state-managed retirement benefit plan operated by local government. The subsidiaries 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\$290,437 thousand and NT\$420,872 thousand, representing the contributions made and to be made to these plans by the Company at the rates specified in the plans for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the amounts of contributions payable were NT\$41,089 thousand and NT\$76,426 thousand, respectively, the amounts were paid subsequent to the end of the reporting period.

Defined Benefit Plans

The defined benefit plan adopted by HTC in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated based on the years of services and the average monthly salaries of the six months before retirement. HTC contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, HTC assess the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, HTC are required to fund the difference in one appropriation that should be made before the end of March of the following year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); HTC has no right to influence the investment policy and strategy.

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Present value of defined benefit obligation	\$ (314,090)	\$ (581,492)
Fair value of plan assets	<u>584,448</u>	<u>599,611</u>
Net defined benefit asset	<u>\$ 270,358</u>	<u>\$ 18,119</u>

Movements in net defined benefit asset were as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Asset
Balance at January 1, 2017	<u>\$ (533,819)</u>	<u>\$ 574,258</u>	<u>\$ 40,439</u>
Current service cost	(11,492)	-	(11,492)
Net interest (expense) income	<u>(7,990)</u>	<u>8,765</u>	<u>775</u>
Recognized in profit or loss	<u>(19,482)</u>	<u>8,765</u>	<u>(10,717)</u>
Remeasurement			
Return on plan assets	-	(3,105)	(3,105)
Actuarial loss - changes in demographic assumptions	(59,687)	-	(59,687)
Actuarial gain - changes in financial assumptions	164	-	164
Actuarial gain - experience adjustments	<u>29,499</u>	-	<u>29,499</u>
Recognized in other comprehensive income	<u>(30,024)</u>	<u>(3,105)</u>	<u>(33,129)</u>
Contributions from the employer	-	21,526	21,526
Benefits paid	<u>1,833</u>	<u>(1,833)</u>	-
Balance at December 31, 2017	<u>(581,492)</u>	<u>599,611</u>	<u>18,119</u>

(Continued)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Asset
Current service cost	\$ (11,514)	\$ -	\$ (11,514)
Past service cost and gain on settlements	61,760	-	61,760
Net interest (expense) income	<u>(8,660)</u>	<u>9,111</u>	<u>451</u>
Recognized in profit or loss	<u>41,586</u>	<u>9,111</u>	<u>50,697</u>
Remeasurement			
Return on plan assets	-	14,720	14,720
Actuarial loss - changes in demographic assumptions	(23,018)	-	(23,018)
Actuarial loss - changes in financial assumptions	(6,545)	-	(6,545)
Actuarial gain - experience adjustments	<u>194,244</u>	<u>-</u>	<u>194,244</u>
Recognized in other comprehensive income	<u>164,681</u>	<u>14,720</u>	<u>179,401</u>
Contributions from the employer	-	20,448	20,448
Benefits paid	56,978	(56,978)	-
Adjustment on disposal of subsidiary	<u>4,157</u>	<u>(2,464)</u>	<u>1,693</u>
Balance at December 31, 2018	<u>\$ (314,090)</u>	<u>\$ 584,448</u>	<u>\$ 270,358</u> (Concluded)

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- a. Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- b. Interest risk: A decrease in the government/corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- c. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rates	1.375%	1.375%-1.500%
Expected rates of salary increase	4.000%	2.250%-4.000%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would (increase) decrease as follows:

	December 31	
	2018	2017
Discount rates		
0.25% increase	<u>\$ 11,533</u>	<u>\$ 20,801</u>
0.25% decrease	<u>\$ (12,075)</u>	<u>\$ (21,787)</u>
Expected rates of salary increase		
0.25% increase	<u>\$ (11,601)</u>	<u>\$ (20,965)</u>
0.25% decrease	<u>\$ 11,148</u>	<u>\$ 20,137</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2018	2017
The expected contributions to the plan for the next year	<u>\$ 13,450</u>	<u>\$ 20,675</u>
The average duration of the defined benefit obligation	15.45 years	14.98 years

25. EQUITY

Share Capital

a. Ordinary shares

	December 31	
	2018	2017
Number of shares authorized (in thousands of shares)	<u>1,000,000</u>	<u>1,000,000</u>
Shares authorized	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Number of shares issued and fully paid (in thousands of shares)	<u>818,814</u>	<u>820,826</u>
Shares issued	<u>\$ 8,188,135</u>	<u>\$ 8,208,261</u>

For the year ended 2017, HTC retired 1,193 thousand restricted shares for employees amounting to NT\$11,926 thousand. In October 2017, the employee stock options have been exercised by issuing 10 thousand shares that amounted to NT\$100 thousand. As a result, HTC's issued and outstanding common shares as of December 31, 2017 decreased to NT\$8,208,261 thousand, which equaled to 820,826 thousand ordinary shares with a par value of NT\$10. Every ordinary share carries one vote per share and a right to dividends.

For the year ended 2018, HTC retired 2,161 thousand restricted shares for employees amounting to NT\$21,616 thousand. In January and February 2018, the employee share options have been exercised by the issuance of 149 thousand shares that amounted to NT\$1,490 thousand. As a result, HTC's issued and outstanding common shares as of December 31, 2018 decreased to NT\$8,188,135 thousand, which equaled to 818,814 thousand ordinary shares with a par value of NT\$10. Every ordinary share carries one vote per share and a right to dividends.

80,000 thousand of HTC's ordinary shares authorized were reserved for the issuance of employee share options.

b. Global depositary receipts

In November 2003, HTC issued 14,400 thousand ordinary shares corresponding to 3,600 thousand units of Global Depositary Receipts (“GDRs”). For this GDR issuance, HTC’s shareholders, including Via Technologies, Inc., also issued 12,878.4 thousand ordinary shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of stock dividends, the GDRs increased to 8,782.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested HTC to redeem the GDRs to get HTC’s ordinary shares. As of December 31, 2018, there were 6,842 thousand units of GDRs redeemed, representing 27,366 thousand ordinary shares, and the outstanding GDRs represented 8,695 thousand ordinary shares or 1.06% of HTC’s issued and outstanding ordinary shares.

Capital Surplus

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Arising from issuance of ordinary shares	\$ 14,714,126	\$ 14,659,563
Arising from consolidation excess	23,288	23,288
Arising from expired share options	506,611	186,052
<u>May be used to offset a deficit only</u>		
Changes in equity-method associates capital surplus	60,873	-
<u>May not be used for any purpose</u>		
Arising from employee share options	247,944	572,369
Arising from employee restricted shares	<u>23,426</u>	<u>110,219</u>
	<u>\$ 15,576,268</u>	<u>\$ 15,551,491</u>

The capital surplus arising from shares issued in excess of par (including share premium from the issuance of ordinary shares, treasury share transactions, consolidation excess and expired share options) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company’s capital surplus and once a year).

For details of capital surplus - employee share options and employee restricted shares, refer to Note 33.

Retained Earnings and Dividend Policy

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

- a. To pay taxes.
- b. To cover accumulated losses, if any.
- c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of HTC’s authorized capital.
- d. To recognize or reverse special reserve return earnings.

- e. The Board of Directors shall propose allocation ratios for any remainder profit after withholding the amounts under subparagraphs a. to d. above plus any unappropriated retained earnings of previous years based on the dividend policy set forth in the Article and propose such allocation ratio at the shareholders' meeting.

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

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

The appropriation of profit or loss for 2017 and 2016 had been resolved in the shareholders' meeting on June 26, 2018 and June 15, 2017, respectively.

Information on the earnings appropriation approved by the HTC's shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

Other Equity Items

- 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 - 2017

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. Unrealized gains or losses on financial assets at FVTOCI - 2018

Unrealized gains or losses on financial assets at FVTOCI represents the cumulative gains and losses arising on the revaluation of financial assets at FVTOCI that have been recognized in other comprehensive income. The cumulative unrealized gains or losses will not be reclassified to profit or loss on disposal of the equity investments.

d. Unearned employee benefit

In the meeting of shareholders on June 2, 2015 and June 19, 2014, the shareholders approved a restricted stock plan for employees. See Note 33 for the information of restricted shares issued.

	For the Year Ended December 31	
	2018	2017
Balance, beginning of the year	\$ (49,590)	\$ (253,922)
Adjustment of turnover rate	62,677	104,517
Share-based payment expenses recognized	<u>(20,164)</u>	<u>99,815</u>
Balance, end of the year	<u>\$ (7,077)</u>	<u>\$ (49,590)</u>

26. OPERATING REVENUE

	For the Year Ended December 31	
	2018	2017
Sale of goods	\$ 22,983,634	\$ 59,593,708
Other operating income	<u>756,976</u>	<u>2,526,106</u>
	<u>\$ 23,740,610</u>	<u>\$ 62,119,814</u>

Some sales denominated in foreign currencies were hedged for cash flow risk. Accordingly, the Company transferred NT\$(4,389) thousand of the gain or loss on the hedging instrument that was determined to be the effective portion of the hedge to sales of goods for the years ended in 2017.

27. NET GAIN (LOSS) FROM CONTINUING OPERATIONS AND OTHER COMPREHENSIVE INCOME AND LOSS

a. Other income

	For the Year Ended December 31	
	2018	2017
Interest income		
Bank deposits	\$ 546,424	\$ 256,064
Others	<u>348</u>	<u>27,510</u>
	546,772	283,574
Rental income	459,070	-
Dividends	-	47,284
Others	<u>230,037</u>	<u>342,245</u>
	<u>\$ 1,235,879</u>	<u>\$ 673,103</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Net gain on disposal of assets and licensing income	\$ 31,285,385	\$ -
Net gain on disposal of non-current assets held for sale (Note 15)	1,077,246	-
Net foreign exchange gain	489,797	448,977
Net gain (loss) on disposal of property, plant and equipment	245,446	(80,397)
Net gain on disposal of subsidiary (Note 31)	15,396	-
Net gain on disposal of investment	-	24,305
Net gain on valuation of financial instruments at fair value	1,255	-
Net loss arising from financial instruments classified as held for trading	-	(9,985)
Ineffective portion of cash flow hedge (Note 8)	-	3,538
Impairment loss (Notes 10, 14, 18 and 20)	(2,317,547)	(444,972)
Other loss	<u>(802,760)</u>	<u>(27,317)</u>
	<u>\$ 29,994,218</u>	<u>\$ (85,851)</u>

On September 21, 2017, the Company signed a business cooperation agreement (the “Agreement”) with Google Inc. (“Google”). According to the Agreement, a part of the Company’s employees and assets was transferred to Google for US\$1,100,000 thousand and Google has received a non-exclusive license for a certain part of the Company’s intellectual properties. The aforementioned transaction was completed on January 30, 2018, and resulted in a net gain of NT\$31,300,655 thousand, which was comprised of and recorded as a net gain of NT\$31,285,385 thousand on the disposal of assets and licensing fee income, a net gain of NT\$15,396 thousand on the disposal of a subsidiary and a net loss of NT\$126 thousand on the disposal of property and equipment.

c. Impairment loss (reversal gain) on financial assets

	For the Year Ended December 31	
	2018	2017
Trade receivables (included in operating expense)	\$ 82,964	\$ (362,870)
Financial assets measured at cost - non-current (included in other gains and losses)	<u>-</u>	<u>109,779</u>
	<u>\$ 82,964</u>	<u>\$ (253,091)</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	\$ 484,358	\$ 1,000,545
Investment properties	91,215	5,936
Intangible assets	<u>1,198,288</u>	<u>1,386,637</u>
	<u>\$ 1,773,861</u>	<u>\$ 2,393,118</u>

(Continued)

	<u>For the Year Ended December 31</u>	
	2018	2017
An analysis of depreciation - by function		
Operating costs	\$ 89,866	\$ 284,026
Operating expenses	394,492	716,519
Other expenses	<u>91,215</u>	<u>5,936</u>
	<u>\$ 575,573</u>	<u>\$ 1,006,481</u>
An analysis of amortization - by function		
Operating costs	\$ -	\$ 1,498
Operating expenses	<u>1,198,288</u>	<u>1,385,139</u>
	<u>\$ 1,198,288</u>	<u>\$ 1,386,637</u>

(Concluded)

e. Employee benefits expense

	<u>For the Year Ended December 31</u>	
	2018	2017
Short-term benefits	<u>\$ 7,974,171</u>	<u>\$ 11,264,101</u>
Post-employment benefits (Note 24)		
Defined contribution plans	290,437	420,872
Defined benefit plans	<u>(50,697)</u>	<u>10,717</u>
	<u>239,740</u>	<u>431,589</u>
Share-based payments (Note 33)		
Equity-settled share-based payments	<u>(21,830)</u>	<u>128,811</u>
Separation benefits	<u>537,608</u>	<u>-</u>
Total employee benefits expense	<u>\$ 8,729,689</u>	<u>\$ 11,824,501</u>
An analysis of employee benefits expense - by function		
Operating costs	\$ 1,591,106	\$ 2,558,357
Operating expenses	6,600,975	9,266,144
Other expenses	<u>537,608</u>	<u>-</u>
	<u>\$ 8,729,689</u>	<u>\$ 11,824,501</u>

f. Employees' compensation and remuneration of directors and supervisors

In compliance with HTC's Articles of Incorporation, the amendments stipulate the distribution of employees' compensation and remuneration to directors and supervisors at rates of no less than 4% and of no more than 0.25%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. For the years ended December 31, 2018 and 2017, the accrual rates and amount of employees' compensation are as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	2018	2017
Employees' compensation	4%	4%

Amount

	<u>For the Year Ended December 31</u>	
	2018	2017
Employees' compensation	\$ <u>456,987</u>	\$ <u>-</u>

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate in the subsequent year.

For further information on the employees' compensation and remuneration to directors and supervisors approved in the meeting of the board of directors in 2018 and 2017, refer to disclosures in the Market Observation Post System website of the Taiwan Stock Exchange.

g. Impairment loss on non-financial assets

	<u>For the Year Ended December 31</u>	
	2018	2017
Inventories (included in operating costs)	\$ 1,057,004	\$ 5,713,443
Intangible asset (included in other gains and losses)	33,373	-
Prepayments (included in other gains and losses)	2,248,030	-
Property, plant and equipment (included in other gains and losses)	<u>36,144</u>	<u>335,193</u>
	<u>\$ 3,374,551</u>	<u>\$ 6,048,636</u>

h. Gain or loss on foreign currency exchange

	<u>For the Year Ended December 31</u>	
	2018	2017
Foreign exchange gains	\$ 2,133,151	\$ 5,231,847
Foreign exchange losses	(1,643,354)	(4,782,870)
Valuation gain (loss) arising from financial instruments classified as held for trading	1,255	(9,985)
Ineffective portion of cash flow hedges	<u>-</u>	<u>3,538</u>
	<u>\$ 491,052</u>	<u>\$ 442,530</u>

28. INCOME TAXES RELATING TO CONTINUING OPERATIONS

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

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 277,920	\$ 156,432
Land value increment tax	84,027	-
Adjustments for previous years	<u>(167,294)</u>	<u>(115,345)</u>
	<u>194,653</u>	<u>41,087</u>
Deferred tax		
In respect of the current year	<u>5,008,928</u>	<u>(79,563)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 5,203,581</u>	<u>\$ (38,476)</u>

A reconciliation of accounting profit (loss) and income tax expense (benefit) and the applicable tax rate were as follows:

	For the Year Ended December 31	
	2018	2017
Profit (loss) before income tax	<u>\$ 17,228,482</u>	<u>\$ (16,958,835)</u>
Income tax expense (benefit) calculated at 20% and 17% in 2018 and 2017, respectively	\$ 3,445,696	\$ (2,883,002)
Effect of expenses that were not deductible in determining taxable profit	130,963	141,195
Effect of temporary differences	1,147,151	1,014,610
Effect of loss carryforward	306,231	1,691,131
Land Value Increment	84,027	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	256,807	112,935
Adjustments for previous years' tax	<u>(167,294)</u>	<u>(115,345)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 5,203,581</u>	<u>\$ (38,476)</u>

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax expense (benefit) recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
<u>Deferred tax</u>		
Recognized in current year		
Income tax expense (benefit) of remeasurement on defined benefit plan	<u>\$ 21,529</u>	<u>\$ (4,014)</u>

c. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax assets		
Tax refund receivable	<u>\$ 222,387</u>	<u>\$ 131,901</u>
Current tax liabilities		
Income tax payable	<u>\$ 241,167</u>	<u>\$ 253,240</u>

d. Deferred tax balances

Movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2018 and 2017 were as follows:

	2018					
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Disposal of Subsidiary	Translation Adjustment	Closing Balance
<u>Deferred tax assets</u>						
Temporary differences						
Unrealized royalties	\$ 404,858	\$ 43,001	\$ -	\$ -	\$ -	\$ 447,859
Unrealized marketing expenses	456,655	(180,782)	-	-	(1,209)	274,664
Unrealized warranty expense	312,697	(96,116)	-	-	-	216,581
Allowance for loss on decline in value of inventory	560,149	(335,499)	-	-	-	224,650
Unrealized profit	42,754	(21,293)	-	-	-	21,461
Unrealized salary and welfare	52,525	(6,924)	-	-	1,000	46,601
Unrealized contingent losses on purchase orders	69,754	(62,528)	-	-	-	7,226
Others	317,375	(80,047)	-	-	(122)	237,206
Loss carryforwards	<u>6,773,881</u>	<u>(4,293,446)</u>	<u>-</u>	<u>-</u>	<u>377</u>	<u>2,480,812</u>
	<u>\$ 8,990,648</u>	<u>\$ (5,033,634)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46</u>	<u>\$ 3,957,060</u>
<u>Deferred tax liabilities</u>						
Temporary differences						
Financial instruments at FVTPL	\$ -	\$ 151	\$ -	\$ -	\$ -	\$ 151
Defined benefit plans	1,936	8,762	21,529	308	-	32,535
Others	<u>45,211</u>	<u>(33,619)</u>	<u>-</u>	<u>-</u>	<u>(827)</u>	<u>10,765</u>
	<u>\$ 47,147</u>	<u>\$ (24,706)</u>	<u>\$ 21,529</u>	<u>\$ 308</u>	<u>\$ (827)</u>	<u>\$ 43,451</u>

	2017					
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Disposal of Subsidiary	Translation Adjustment	Closing Balance
<u>Deferred tax assets</u>						
Temporary differences						
Unrealized royalties	\$ 370,916	\$ 33,942	\$ -	\$ -	\$ -	\$ 404,858
Unrealized marketing expenses	858,920	(396,963)	-	-	(5,302)	456,655
Unrealized warranty expense	364,585	(50,879)	-	-	(1,009)	312,697
Allowance for loss on decline in value of inventory	449,998	111,526	-	-	(1,375)	560,149
Unrealized profit	151,256	(108,502)	-	-	-	42,754
Unrealized salary and welfare	93,746	(36,405)	-	-	(4,816)	52,525
Unrealized contingent losses on purchase orders	44,802	24,952	-	-	-	69,754
Others	400,395	(83,347)	-	-	327	317,375
Loss carryforwards	<u>6,223,258</u>	<u>554,274</u>	<u>-</u>	<u>-</u>	<u>(3,651)</u>	<u>6,773,881</u>
	<u>\$ 8,957,876</u>	<u>\$ 48,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (15,826)</u>	<u>\$ 8,990,648</u>
<u>Deferred tax liabilities</u>						
Temporary differences						
Financial instruments at FVTPL	\$ 1,227	\$ (1,227)	\$ -	\$ -	\$ -	\$ -
Defined benefit plans	4,678	1,272	(4,014)	-	-	1,936
Others	<u>75,389</u>	<u>(31,010)</u>	<u>-</u>	<u>-</u>	<u>832</u>	<u>45,211</u>
	<u>\$ 81,294</u>	<u>\$ (30,965)</u>	<u>\$ (4,014)</u>	<u>\$ -</u>	<u>\$ 832</u>	<u>\$ 47,147</u>

- e. Amounts of deductible temporary differences, unused carryforward and unused tax credits for which deferred tax assets have not been recognized

	December 31	
	2018	2017
Loss carryforward	<u>\$ 56,988,154</u>	<u>\$ 49,484,247</u>
Deductible temporary differences	<u>\$ 9,058,035</u>	<u>\$ 21,422,629</u>

- f. Information about unused loss carry-forward

Loss carryforwards as of December 31, 2018 comprised of:

Remaining Carrying	Expiry Year
\$ 760,196	2019
1,128,541	2020
1,035,619	2021
1,014,629	2022
3,224,043	2024
22,459,646	2025
21,816,516	2026
17,997,411	2027
<u>275,494</u>	2028-2032
<u>\$ 69,712,095</u>	

- g. The aggregate amount of temporary difference associated with investments for which deferred tax assets (liabilities) have not been recognized

As of December 31, 2018 and 2017, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax assets have been recognized were NT\$5,234,750 thousand and NT\$4,347,613 thousand, respectively.

- h. Income tax assessments

HTC's tax returns through 2016 had been assessed by the tax authorities.

The income tax returns of HTC Investment Corporation and HTC VIVE TECH Corp. for the years through 2016 have been examined and approved by the tax authorities.

29. EARNINGS (LOSS) PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2018	2017
Basic earnings (loss) per share	<u>\$ 14.72</u>	<u>\$ (20.58)</u>
Diluted earnings (loss) per share	<u>\$ 14.50</u>	<u>\$ (20.58)</u>

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

Net Profit (Loss) for the Years

	For the Year Ended December 31	
	2018	2017
Profit (Loss) for the year attributable to owners of the parent	<u>\$ 12,068,202</u>	<u>\$ (16,905,713)</u>

Shares

Unit: In Thousands of Shares

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	819,629	821,593
Effect of potentially dilutive ordinary shares:		
Employees' compensation issued	<u>12,928</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	<u>832,557</u>	<u>821,593</u>

If the Company offered to settle the compensation or bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings (loss) per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings (loss) per share until the number of shares to be distributed to employees is resolved in the following year.

The exercise price of the outstanding options issued by the Company was beneath the average market price of the shares during the years ended December 31, 2018 and 2017, which were excluded from the computation of diluted earnings (loss) per share.

30. BUSINESS COMBINATIONS

a. Subsidiaries acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
VRChat, Inc. and its subsidiary	Development of virtual reality devices	August 2, 2017	53.16	<u>\$ 118,756</u>

VRChat, Inc. and its subsidiary were acquired in August 2017 by the Company to diversify the range of virtual reality development. The Company acquired 53.16% equity interest in VRChat, Inc. by investing US\$3,649 thousand in cash and the convertible bonds amounted to US\$275 thousand converted to preferred shares. VRChat, Inc. and its subsidiary were incorporated in consolidated financial statement by its acquisition of control.

b. Considerations transferred

	VRChat, Inc.
Convertible bonds converted to preferred shares	\$ 8,322
Cash	<u>110,434</u>
	<u>\$ 118,756</u>

c. Assets acquired and liabilities assumed at the date of acquisition

	VRChat, Inc.
Current assets	
Cash and cash equivalents	\$ 116,408
Other receivables	9,457
Current liabilities	
Other payables	<u>(32,619)</u>
	<u>\$ 93,246</u>

d. Non-controlling interests

The non-controlling interest (46.84% ownership interest in VRChat, Inc.) recognized at the acquisition date was measured by reference to the percentage of net assets.

e. Goodwill recognized on acquisition

	VRChat. Inc.
Consideration transferred	\$ 118,756
Plus: Non-controlling interests (46.84% in VRChat. Inc.)	43,676
Less: Fair value of identifiable net assets acquired	<u>(93,246)</u>
Goodwill recognized on acquisition	<u>\$ 69,186</u>

The goodwill recognized in the acquisition of VRChat. Inc. and its subsidiary mainly represents the control premium included in the cost of the combination. In addition, the consideration paid for the combination effectively included amounts attributed to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of VRChat. Inc. and its subsidiary. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

f. Net cash inflow on acquisition of subsidiaries

	VRChat. Inc.
Consideration paid in cash	\$ (110,434)
Less: Cash and cash equivalent balances acquired	<u>116,408</u>
	<u>\$ 5,974</u>

Had these business combinations been in effect at the beginning of the annual reporting period, the Company's revenue from continuing operations would have been NT\$62,119,814 thousand, and the loss from continuing operations would have been (NT\$16,947,067) thousand for the year ended December 31, 2017. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that actually would have been achieved had the acquisition been completed on August 2, 2017, nor is it intended to be a projection of future results.

31. DISPOSAL OF SUBSIDIARIES

On September 21, 2017, the Company entered into a sale agreement with Google Inc. ("Google") to dispose 100% equity interest of Communication Global Certification Inc. ("CGC"). CGC is engaged in providing import of controlled telecommunications radio-frequency devices and software services. The transaction was completed at January 30, 2018, and thereafter the Company lost its control on CGC.

a. Consideration received from the disposal

	CGC
Consideration received in cash	<u>\$ 410,857</u>

b. Analysis of assets and liabilities on the date control was lost

	CGC
Current assets	
Cash and cash equivalents	\$ 303,939
Others	9,474
Non-current assets	
Property, plant and equipment	105,170
Others	1,662
Current liabilities	(23,091)
Non-current liabilities	<u>(1,693)</u>
Net assets disposed of	<u>\$ 395,461</u>

c. Gain on disposal of subsidiary

	CGC
Consideration received	\$ 410,857
Less: Net assets disposed of	<u>(395,461)</u>
Gain on disposal	<u>\$ 15,396</u>

d. Net cash inflow on disposal of subsidiary

	CGC
Consideration received in cash and cash equivalents	\$ 410,857
Less: Cash and cash equivalent balances disposed of	<u>(303,939)</u>
	<u>\$ 106,918</u>

32. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

Operating leases relate to leases of land and buildings with lease terms between 1 and 10 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews. The Company does not have a bargain purchase option to acquire the leased land at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31	
	2018	2017
No later than 1 year	\$ 118,916	\$ 139,557
Later than 1 year and not later than 5 years	248,997	309,453
Later than 5 years	<u>28,949</u>	<u>59,321</u>
	<u>\$ 396,862</u>	<u>\$ 508,331</u>

The Company as Lessor

Operating leases relate to the leasing of investment properties with lease terms between 1 to 2 years. All operating lease contracts contain market review clauses in the event that the lessees exercise their options to renew. The lessees do not have bargain purchase options to acquire the properties at the expiry of the lease periods.

The receivables of non-cancellable operating lease commitments are as follows:

	December 31	
	2018	2017
No later than 1 year	\$ 528,825	\$ -
Later than 1 year and not later than 5 years	2,083,055	-
Later than 5 years	<u>4,123,389</u>	<u>-</u>
	<u>\$ 6,735,269</u>	<u>\$ -</u>

33. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

Qualified employees of HTC and its subsidiaries were granted 15,000 thousand options in November 2013. Each option entitles the holder to subscribe for one common share of HTC. The options granted are valid for 7 years and exercisable at certain percentages after the second anniversary from the grant date.

Qualified employees of HTC and its subsidiaries were granted 19,000 thousand options in October 2014. Each option entitles the holder to subscribe for one common share of HTC. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date.

Qualified employees of HTC and its subsidiaries were granted 1,000 thousand options in August 2015. Each option entitles the holder to subscribe for one ordinary share of HTC. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date.

The exercise price equals to the closing price of HTC's ordinary shares on the grant date. For any subsequent changes in the HTC's ordinary shares, the exercise price is adjusted accordingly.

Information on employee share options were as follows:

	For the Year Ended December 31			
	2018		2017	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	16,068	\$ 137.45	20,072	\$ 136.65
Options exercised	(149)		(10)	
Options forfeited	<u>(9,010)</u>		<u>(3,994)</u>	
Balance at December 31	<u>6,909</u>	\$ 138.19	<u>16,068</u>	137.45
Options exercisable, end of the year	<u>6,889</u>		<u>15,792</u>	

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

	December 31	
	2018	2017
Range of exercise price (NT\$)	\$54.5-\$149	\$54.5-\$149
Weighted-average remaining contractual life (years)	4.21 years	5.24 years

Options granted in August 2015, October 2014 and November 2013 were priced using the trinomial option pricing model and the inputs to the model were as follows:

	August 2015	October 2014	November 2013
Grant-date share price (NT\$)	\$54.50	\$134.50	\$149.00
Exercise price (NT\$)	\$54.50	\$134.50	\$149.00
Expected volatility	39.26%	33.46%	45.83%
Expected life (years)	10 years	10 years	7 years
Expected dividend yield	4.04%	4.40%	5.00%
Risk-free interest rate	1.3965%	1.7021%	1.63%

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

Employee Restricted Shares

In the shareholders' meeting on June 19, 2014 and June 2, 2015, the shareholders approved a restricted share plan for employees amounting to NT\$50,000 thousand and NT\$75,000 thousand, consisting of 5,000 thousand and 7,500 thousand shares, respectively. In 2014 and 2015, HTC's Board of Directors passed a resolution to issue 5,000 thousand and 7,500 thousand shares, respectively.

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

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

If an employee fails to meet the vesting conditions, HTC will recall or buy back and cancel the restricted shares. For the years ended December 31, 2017 and 2018, HTC retired 1,193 thousand and 2,161 thousand restricted shares for employees amounting to NT\$11,926 thousand and NT\$21,616 thousand, respectively. As a result, the numbers of HTC's issued and outstanding employee restricted shares as of December 31, 2018 was 330 thousand shares. The related information is as follows:

Grant-date	July 18, 2016	December 23, 2015	August 10, 2015	November 2, 2014
Grant-date fair value (NT\$)	\$96.90	\$76.20	\$57.50	\$134.50
Exercise price	Gratuitous	Gratuitous	Gratuitous	Gratuitous
Numbers of shares (thousand shares)	2,657	4,006	400	4,600
Vesting period (years)	1-4 years	1-3 years	1-3 years	1-3 years

Compensation Cost of Share-based Payment Arrangements

Compensation cost of share-based payment arrangement (reversed) recognized was NT\$(21,830) thousand and NT\$128,811 thousand for the years ended December 31, 2018 and 2017, respectively.

34. 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, the 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.

35. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments That Are Not Measured at Fair Value

Financial instruments not measured at fair value held by the Company include financial assets measured at cost. The management considers that the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair value or the fair value are not measured reliably.

Fair Value of Financial Instruments That Are Measured at Fair Value on a Recurring Basis

a. Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	\$ -	\$ 83,411	\$ -	\$ 83,411
Financial assets at FVTPL				
Derivative financial instruments				
Convertible bonds	-	-	214,340	214,340
Warrants	-	-	22,124	22,124
	<u>\$ -</u>	<u>\$ 83,411</u>	<u>\$ 236,464</u>	<u>\$ 319,875</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market shares	\$ 83,383	\$ -	\$ -	\$ 83,383
Domestic unlisted shares	-	-	388,700	388,700
Overseas listed shares	409,412	-	-	409,412
Overseas unlisted shares	-	-	1,103,891	1,103,891
Overseas unlisted beneficiary certificates	-	-	749,046	749,046
	<u>\$ 492,795</u>	<u>\$ -</u>	<u>\$ 2,241,637</u>	<u>\$ 2,734,432</u>
Financial liabilities at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	<u>\$ -</u>	<u>\$ 82,156</u>	<u>\$ -</u>	<u>\$ 82,156</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	\$ -	\$ 65,199	\$ -	\$ 65,199
Available-for-sale financial assets				
Investments in equity instruments				
Domestic listed shares	\$ 91	\$ -	\$ -	\$ 91
Overseas listed shares	312,106	-	-	312,106
	<u>\$ 312,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 312,197</u>
Financial liabilities at FVTPL				
Derivative financial instruments	\$ -	\$ 75,184	\$ -	\$ 75,184

There were no transfers between Levels 1 and 2 for the years ended December 31, 2018 and 2017.

b. Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2018

Financial Assets	Financial Assets at FVTPL Derivatives	Financial Assets at FVTOCI Equity Instruments	Total
Balance at January 1, 2018	\$ 131,742	\$ 3,024,565	\$ 3,156,307
Recognized in other comprehensive income	-	(907,857)	(907,857)
Reclassification	(7,378)	7,378	-
Purchases	107,067	40,543	147,610
Effect of foreign currency exchange differences	<u>5,033</u>	<u>77,008</u>	<u>82,041</u>
Balance at December 31, 2018	<u>\$ 236,464</u>	<u>\$ 2,241,637</u>	<u>\$ 2,478,101</u>

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

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

d. Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

For fair value measurements categorized within Level 3 of the fair value hierarchy as investments in equity instruments, the lack of quoted prices in an active market categorized the financial assets into Level 3 of which fair values are based on valuations provided by market participants or quoted prices of the counterparty. Quantitative information is not disclosed since the relationship between significant unobservable inputs and the fair value cannot be fully controlled.

e. Valuation process for Level 3 fair value measurement

The investment department will confirm the reliability, independence and correspondence of the information sources in representative of the exercise price. Any adjustments should be made in order to ensure the rationality of the valuation presented.

f. Sensitivity analysis of the fair value regarding reasonable and possible alternative assumption within Level 3

No sensitivity analysis of replacement assumptions need to be implemented for the valuation of financial instruments as fair value measurement within Level 3 since the valuation by the Company is reasonable without the adoption of a self-estimated model.

Categories of Financial Instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Financial assets at FVTPL		
Held for trading (Note 1)	\$ 83,411	\$ 196,941
Mandatorily at FVTPL	236,464	-
Loans and receivables (Note 2)	-	27,211,199
Available-for-sale financial assets (Note 3)	-	3,367,695
Amortized cost (Note 4)	43,548,840	-
Financial assets at FVTOCI		
Equity instruments	2,734,432	-
<u>Financial liabilities</u>		
Financial liabilities at FVTPL		
Held for trading	82,156	75,184
Amortized cost (Note 5)	19,269,254	26,389,180

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

Note 2: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other financial assets, trade receivables, other receivables and refundable deposits.

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

Note 4: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, other financial assets, trade receivables, other receivables and refundable deposits.

Note 5: The balances included financial liabilities measured at amortized cost, which comprise short-term loans, notes and trade payables, other payables, agency receipts and guarantee deposits received.

Financial Risk Management Objectives and Policies

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 which were approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and

non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies was reviewed by the internal auditors on a continuous basis. The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports quarterly to the Company's supervisory and board of directors for monitoring risks and policies implemented to mitigate risk exposures.

a. Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates. The Company entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk.

There had been no change to the Company's exposure to market risks or the manner in which these risks were managed and measured.

Foreign currency risk

The Company undertook transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arose. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 39.

Sensitivity analysis

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

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges. A positive number below indicates an increase in pre-tax profit (loss) or equity associated with the NTD strengthens 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be an equal and opposite impact on pre-tax profit (loss) or equity, and the balances below would be negative.

	Profit or Loss	Equity
<u>For the year ended December 31, 2018</u>		
USD	\$ 7,963	\$ (131,112)
EUR	2,527	(3,641)
RMB	(20,430)	(105,301)
JPY	426	(1,504)
<u>For the year ended December 31, 2017</u>		
USD	30,978	(136,557)
EUR	2,751	(5,429)
RMB	(8,819)	(99,138)
JPY	(1,356)	(1,376)

b. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation and financial guarantees provided by the Company could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets. The Company does not issue any financial guarantee involving credit risk.

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

The credit risk information of trade receivables is disclosed in the Note 12.

c. Liquidity risk

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

1) Liquidity risk tables for non-derivative financial liabilities

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

December 31, 2018

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 2,978,647	\$ 6,834,200	\$ -
Other payables	4,930,145	4,293,148	-
Other current liabilities	102,714	-	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>130,400</u>
	<u>\$ 8,011,506</u>	<u>\$ 11,127,348</u>	<u>\$ 130,400</u>

December 31, 2017

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Non-derivative financial liabilities</u>			
Note and trade payables	\$ 7,127,952	\$ 7,441,270	\$ -
Other payables	6,885,512	4,796,378	-
Other current liabilities	132,387	-	-
Guarantee deposits received	<u>-</u>	<u>-</u>	<u>5,681</u>
	<u>\$ 14,145,851</u>	<u>\$ 12,237,648</u>	<u>\$ 5,681</u>

2) Liquidity risk tables for derivative financial instruments

The following table details the Company's liquidity analysis for its derivative financial instruments. The table is based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

December 31, 2018

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	\$ 20,968	\$ -	\$ -
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 25,899,104	\$ -	\$ -
Outflows	<u>(25,861,350)</u>	<u>-</u>	<u>-</u>
	<u>\$ 37,754</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2017

	Less Than 3 Months	3 Months to 1 Year	Over 1 Year
<u>Net settled</u>			
Foreign exchange contracts	\$ 36,842	\$ -	\$ -
<u>Gross settled</u>			
Foreign exchange contracts			
Inflows	\$ 14,373,269	\$ -	\$ -
Outflows	<u>(14,386,102)</u>	<u>-</u>	<u>-</u>
	<u>\$ (12,833)</u>	<u>\$ -</u>	<u>\$ -</u>

3) Bank credit limit

	<u>December 31</u>	
	2018	2017
Unsecured bank general credit limit		
Amount used	\$ 538,680	\$ 294,870
Amount unused	<u>18,128,633</u>	<u>18,315,345</u>
	<u>\$ 18,667,313</u>	<u>\$ 18,610,215</u>

Amount used was included short-term borrowings, guarantee for customs duties and for patent litigation.

36. RELATED-PARTY TRANSACTIONS

Balance, transactions, revenue and expenses between HTC and its subsidiaries, which are related parties of HTC, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in other notes, details of transactions between the Company and other related parties are disclosed below.

The Names and Relationships of Related-parties

<u>Related-party</u>	<u>Relationship with the Company</u>
VIA Technologies Inc.	Its chairman is HTC's director in substance
Xander International Corp.	Its chairman is HTC's director in substance
VIA Labs, Inc.	Its chairman is HTC's director in substance
Chander Electronics Corp.	Its chairman is HTC's director in substance
Way Chih Investment Co., Ltd.	HTC's supervisor
HTC Education Foundation	Its chairman is HTC's director in substance
TVBS Media Inc.	Same chairman and director as HTC's
Hung-Mao Investment Co., Ltd.	Its significant shareholder in substance is HTC's chairwoman
Nan Ya Plastics Corporation	Its director in substance and HTC's chairwoman are relatives and other relatives
Atrust Computer Corporation	Its general manager in substance is HTC's director
Employees' Welfare Committee	Employees' Welfare Committee of HTC
VIA Technologies (China) Co., Ltd.	The chairman of its parent company in substance is HTC's director
Shanghai Investment Advisory (Shanghai) Co., Ltd.	Its chairman is HTC's chairman in substance

Operating Sales

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Other related parties	\$ <u>33,908</u>	\$ <u>83,165</u>

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Other related parties	\$ <u>516</u>	\$ <u>22,400</u>

Some related parties whose received products sold at prices which were no different from sales to third parties. No guarantees had been given or received for trade receivables from related parties. Trade receivables from related parties were assessed to have no bad debt risk, hence no bad debt expense had been recognized for the year ended December 31, 2018 and 2017.

Purchase

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Other related parties	\$ <u>11,725</u>	\$ <u>3,360</u>

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

	December 31	
	2018	2017
Other related parties	<u>\$ 4,159</u>	<u>\$ 960</u>

Purchase prices for related parties and third parties were similar. The outstanding balance of trade payables to related parties are unsecured and will be settled in cash.

Compensation of Key Management Personnel

	For the Year Ended December 31	
	2018	2017
Short-term benefits	\$ 179,216	\$ 210,480
Post-employment benefits	612	2,669
Share-based payments	<u>(1,791)</u>	<u>13,952</u>
	<u>\$ 178,037</u>	<u>\$ 227,101</u>

The remuneration of directors and key executives was determined by the remuneration committee on the basis of the performance of individuals and market trends.

Rental Expenses

	For the Year Ended December 31	
	2018	2017
VIA Technologies (China) Co., Ltd.	\$ 28,261	\$ 32,689
Other related parties	<u>9,074</u>	<u>4,708</u>
	<u>\$ 37,335</u>	<u>\$ 37,397</u>

The Company leased offices, staff dormitory and meeting rooms owned by VIA Technologies (China) Co., Ltd. and a related party under an operating lease agreement, respectively. The rental payment is determined at the prevailing rates in the surrounding area.

Acquisitions of Property, Plant and Equipment

	Price	
	For the Year Ended December 31	
	2018	2017
Other related parties	<u>\$ 675</u>	<u>\$ -</u>

Other Related-party Transactions

Other related parties provide selling and marketing service to the Company. The selling and marketing service expenses was NT\$6,000 thousand for the years ended December 31, 2017.

37. PLEDGED ASSETS

As of December 31, 2018 and 2017, the time deposits amounting to NT\$476,276 thousand and NT\$149,810 thousand and were classified as other financial assets and were provided respectively as collateral for rental deposits, litigation and cooperative vendors.

38. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

In June 2011, ICom filed a new complaint against the Company and claimed the Company’s infringement of a patent owned by ICom in 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 the abovementioned Courts in Germany and the United Kingdom are still ongoing. The Company implemented alternative solution since 2012. The Company evaluated the lawsuits and considered the risk of patents-in-suit as low. Therefore, the probability of preliminary injunction and summary judgment against the design around of the Company is very low.

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

In February 2017, the Court of Appeal of the United Kingdom announced the verdict that the Company’s design around did not infringe patents and only some old products without design around infringed the United Kingdom’s corresponding patent based on the European patent No. 1841268 (EP ‘268 patent). The EP ‘268 patent was validated by the European Patent Office on July 18, 2017. The next hearing has not been scheduled by the Court yet.

As of the date that the board of directors of HTC approved and authorized for issuing consolidated financial statements, the Court has not scheduled the next hearing or announced any verdicts, in addition to the abovementioned progress.

- b. In December 2015, Koninklijke Philips N.V. (“Philips”) filed a lawsuit against the Company in the District Court of Mannheim, Germany and claimed infringement of certain patents owned by Philips. In October 2016, the Mannheim Court found that certain smartphone products sold by the Company in Germany infringed German’s corresponding patent based on the European Patent No. 0888687 (EP ‘687 patent), which relates to the user interface in a device, and granted an injunction against the Company. However, Philips’ attempt to enforce an injunction based on this patent was unsuccessful as the Company has already applied the design around solution, which is provided by Google, in its devices. In July 2017, the German Federal Patent Court announced that EP ‘687 patent was invalid.

Philips’ infringement hearing relating to the European Patent No. 1459165 was heard on May 16, 2018. The patent was related to the scrolling functionality. Unusually, the Court dismissed the infringement allegations at the hearing rather than waiting for an issuance of a written verdict. The other infringement case regarding Philips’ patents is expected to take place in 2018 Q2. This case is based on the European Patent No. 1356367, which relates to dimming control of a device screen. The infringement trial was held on June 22, 2018 and has stayed the infringement action pending the outcome of the nullity action on September 28, 2018.

Philips filed a lawsuit against the Company in the United Kingdom, alleging infringement of certain Philips SEP patents. Since in October 2017, the Court of Appeal of the United Kingdom dismissed the Company's appeal allegation that the rights obtained by virtue of a covenant between Philips and Qualcomm Incorporated extend to Philips' patents covering HSPA technology. As such, the covenant does not provide the Company with a defense against the patent actions in suit relating to this technology. The technical hearings of the three patents-in-suit proceeded as follows: European Patent No. (UK) 1440525 was heard in late April 2018; the Court decision shows that the Company infringed '525; the Company implemented workaround of EP'525. European Patent No. (UK) 1685659 was heard in the middle of June 2018 and the Court rules that '659 is invalid and the Court decision showed that the Company infringed EP 1623511.

The litigations between Company and Philips are ongoing. In order to protect the interests of the Company and its customers, the Company has appealed the court's decision. As of the date that the board of directors of HTC approved and authorized for issuing consolidated financial statements, the appeals court has not issued a ruling with respect to the abovementioned patent-in-suit.

- c. On the basis of its past experience and consultations with its legal counsel, the Company has measured the possible effects of the contingent lawsuits on its business and financial condition.

39. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than the functional currencies of the Company's entities and the exchange rates between foreign currencies and respective functional currencies are disclosed. The significant assets and liabilities denominated in foreign currencies are as follows:

	December 31			
	2018		2017	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 1,285,472	30.73	\$ 1,156,853	29.84
EUR	64,339	35.16	63,262	35.66
JPY	4,120,696	0.2787	5,825,499	0.2649
RMB	1,395,981	4.47	1,188,839	4.58
Non-monetary items				
USD	80,612	30.73	85,590	29.84
RMB	4,885	4.47	1,536	4.58
Investments accounted for by the equity method				
USD	15,783	30.73	13,460	29.84
RMB	14,587	4.47	2,513	4.58
<u>Financial liabilities</u>				
Monetary items				
USD	835,550	30.73	793,530	29.84
EUR	54,934	35.16	66,494	35.66
JPY	3,848,890	0.2787	4,922,152	0.2649
RMB	69,622	4.47	179,398	4.58

For the years ended December 31, 2018 and 2017, realized and unrealized net foreign exchange gains were NT\$491,052 thousand and NT\$442,530 thousand, respectively. It is impractical to disclose net foreign exchange gains or losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Company's entities.

40. SIGNIFICANT CONTRACTS

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

Contractor	Term	Description
Qualcomm Incorporated.	December 20, 2000 to the following dates: a. If the Company materially breaches any agreement terms and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units, royalty payment based on agreement.
Nokia Corporation	January 1, 2014 - December 31, 2018	Patent and technology collaboration; payment for use of implementation patents based on agreement.
InterDigital Technology Corporation	December 31, 2003 to the expiry dates of these patents stated in the agreement.	Authorization to use TDMA and CDMA technologies; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

41. SEGMENT INFORMATION

The Company's operations are mainly focus on the research, design, manufacture and sale of smart mobile and virtual reality devices and its operating revenue takes up 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) by country as of December 31, 2018 and 2017 were as follows:

	<u>December 31</u>	
	2018	2017
Taiwan	\$ 9,793,710	\$ 12,146,237
Country Z	124,861	157,112
Others	<u>1,818,407</u>	<u>3,044,438</u>
	<u>\$ 11,736,978</u>	<u>\$ 15,347,787</u>

The countries that accounted for 10 percent or more of consolidated total revenues for the years ended December 31, 2018 and 2017 were as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Taiwan	\$ 3,532,114	\$ 7,053,499
Country Z	8,532,625	27,951,150
Others	<u>11,675,869</u>	<u>27,115,165</u>
	<u>\$ 23,740,608</u>	<u>\$ 62,119,814</u>

Major Customer

External customer which accounted for 10 percent or more of the Company's total revenues for the years ended December 31, 2018 and 2017 was as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Customer A	<u>\$ 6,271,576</u>	<u>\$ 28,107,186</u>