VIVE

htc

HTC 2018 Annual Report

TWSE 2498

2018

htc Annual Report

Mops.twse.com.tw / htc.com / printed on April 23, 2019

HTC spokesman

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

corporate headquarters

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

taipei office

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

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

stock transfer agent

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

auditors

Deloitte & Touche Auditors
Wen-Ya Hsu and Casey Lai
Address
20F, No. 100, Songren Rd., Xingyi Dist., Taipei, 11073, Taiwan, R.O.C.
Tel +886 2 27259988
Web www.deloitte.com.tw

overseas stock transfer information

Trading

luxembourg stock exchange

Web www.bourse.lu

HTC website

Web www.htc.com

TABLE OF CONTENTS

1

LETTER TO HTC SHAREHOLDERS

LETTER TO HTC SHAREHOLDERS

Dear Shareholders,

2018 saw the emergence of a stronger, more agile innovator in HTC. Two significant transitions were set in motion over the year that are revitalizing the Company and providing fresh impetus to move forward as a dynamic technology powerhouse.

First, there has been an alignment across the whole Company around our vision of VIVE Reality, announced last year, whereby key technologies such as virtual and augmented reality, artificial intelligence, high-speed 5G connectivity and emerging technologies like blockchain will be combined in multiple ways to create richer immersive experiences that will change our lives. These fundamental building blocks are increasingly being applied across our product portfolio, and HTC is keenly focused on investing in the technologies and the talent to develop them.

This alignment afforded a unique opportunity to fully integrate the sales, marketing and operations functions for the VIVE and smartphone businesses in the regions, undertaken over the year, which has removed barriers between departments and promoted synergies. The impact has been remarkable: HTC earned a record number of awards at the Consumer Electronics Show (CES) in Las Vegas in January 2019, surpassing our great performance in 2018 by over 20%, and there is a new spirit of innovation and determination across the Company.

The second transition involves HTC being reimagined as a complete ecosystem company, encompassing not only our bedrock expertise in hardware and software integration, and extending our content creation and platform activities, but adding services such as enterprise VR solutions that provide genuine value to our customers, as well as expediting adoption of the technology. In playing a greater role in enabling VIVE Reality, HTC is creating new revenue and margin opportunities over the medium to long term. To achieve this, we are reshaping our hardware development processes with a view to optimizing our returns across software, platform and services, and have increased our skill base and dedicated the necessary resources to achieve this objective.

In 2018, we saw progress across all of these business areas. Alongside the premium VR and smartphone hardware offerings launched over the year, our VIVEPORT VR content store continued to gain traction among headset owners, and our VIVE Wave SDK has started driving our platform across products from partner hardware companies in the VR ecosystem. It is of note that the 36 awards gained at CES 2019 covered hardware, software and platform innovations: a first for HTC. Additionally, we created a new business unit dedicated to the burgeoning enterprise VR market, an offering that goes far beyond our traditional hardware sales model into consultancy and services, serving customers in manufacturing, design, retail, automotive, aeronautics, education, healthcare, and location-based entertainment; markets not traditionally addressed by HTC.

HTC continues to invest heavily yet wisely in new technologies and processes to ensure that we retain our leadership in innovation in all key areas, as we believe this is the right strategy to drive the Company forward into the era of VIVE Reality.

Product Strategy

In line with our VIVE Reality vision, HTC has focused on developing and implementing the core technologies of virtual reality, 5G connectivity, blockchain and artificial intelligence across our portfolio.

Smartphones and Connected Devices

HTC smartphones saw numerous feature enhancements in 2018, including to HTC's innovative Edge Sense 'squeeze' technology for more intuitive one-handed interactions, as well as wider-angle front cameras to create better selfies. High-efficiency, low-distortion earphone amplifiers greatly enhance the sound effects of the built-in speakers.

The flagship smartphone of 2018 was the HTC U12+, which was launched in May 2018 to considerable acclaim, and was followed later in the year by the HTC U12 life, incorporating some of the key features of the HTC U12+, including the 18:9 widescreen format, and 4K video capability. For the mid-tier market, the HTC Desire 12 and Desire 12+ phones launched in Q1 2018 in certain target markets; these phones followed the smart design and advanced photographic features of the HTC U series, and the HTC Desire 12+ boasted a large 6” display.

HTC also innovated laterally on the smartphone platform with the HTC EXODUS blockchain phone, enabling consumers to own their digital keys, a vital step in empowering consumers to control their own digital identity, data and virtual creations. This concept continues to be developed, to make the benefits of blockchain technology more accessible to consumers.

Finally, the smartphone and connected devices team has focused considerable R&D resources on 5G communication technologies, the next generation of high-speed connectivity. The large bandwidth and low latency of 5G will be a game-changer for industry and business as well as home applications, and HTC is widely acknowledged as having advanced capabilities in wireless technologies, as demonstrated with numerous industry firsts with communications technologies in our history. The first product in this new line is the HTC 5G Hub, demonstrated in late 2018 and launched at Mobile World Congress (MWC) in February 2019, with some of the world’s leading telecom carriers joining as launch partners, including Sprint in the US, Telstra in Australia, and Deutsche Telekom, Elisa, Sunrise and Three in Europe. This all-new smart sensor hub system provides an all-new user experience, and a more intuitive and more convenient operating experience at home, in the office and on the go. We look forward to forging a deeper partnership with carriers as the HTC 5G Hub rolls out globally.

VIVE Virtual Reality

HTC’s VIVE virtual reality business had another bumper year, with numerous targeted hardware, content and platform announcements. For the enterprise market, HTC launched the VIVE Pro at CES 2018, and the VIVE Pro Eye a year later, another VR headset aimed at professional users featuring precision eye-tracking and foveated rendering for optimized performance as well as greater feedback for developers on their content environment.

Early 2019 saw announcements on VIVE Focus Plus, an enhanced model of the standalone VIVE Focus launched the previous year, with 6 degrees of freedom control, and early demonstrations of VIVE Cosmos, the next generation headset with modular functionality, which will be launched later in 2019.

Our VIVEPORT VR content store continued to grow its user and subscriber base over the year, and in early 2019 announced VIVEPORT Infinity, an all-you-can-eat subscription model for VR content, similar to the Netflix model for movies. Across all platforms, there are now over 4,500 titles for VIVE headsets, a 50% increase over the previous year.

2018 was a stellar year for VIVE Studios, with the production of the world’s first feature-length VR film, ‘7 Miracles’, which won best VR film at the Raindance Film Festival at the end of 2018. It published content for entertainment, such as the ‘Ready Player One’ open world titles, and for enterprise, targeting training, healthcare, fitness and education applications. VIVE Studios also launched the VIVE Libraries program in over 110 public libraries in the US, featuring 40 education and experiential titles, to help democratize access to VR.

VIVE ORIGINALS, the Taipei-based VR entertainment content team, saw the co-produced titles ‘The Deserted’, ‘5x1’ (five VR short films directed by Chinese golden-awarded directors) and the ‘Gloomy Eyes’ VR animation featured at numerous international film festivals to great acclaim, while ‘Circus Galactica’ was featured in ‘America’s Got Talent’, the first time for a VR-interactive performance at this reality show.

VIVE Arts continued its important VR outreach work with the world’s leading art galleries, museums and artists. Following the success of the exhibitions at the Tate Modern and the Royal Academy of Arts in London and the National Palace Museum in Taipei, VIVE became the first ever VR partner of Art Basel, the leading international art fair, presenting new works by contemporary artists in both 2018 and 2019. The ‘Up the River During Qingming’ experience at the National Palace Museum and Monet exhibition at Paris’ Orangerie were spectacularly immersive journeys into two of the world’s classic artworks, while the T. Rex experience at the American Museum of Natural History brings pre-history back to life. As a teaching tool or an art medium, immersive VR is proving a welcome complement to the traditional art environment.

HTC’s VIVELAND VR arcade program, launched in Taipei in 2016, has extended both within Taiwan and further afield, with a new arcade opening in Hong Kong in January 2019 and another coming to Korea shortly. The VIVELAND concept itself has been successfully transplanted in Japan, China and Hong Kong, with plans to enter the Middle East and Southeast Asia in 2019, bringing this exciting location-based entertainment format to a wider audience around the world.

Finally, the VIVE X accelerator program is now the world’s most active investor in the VR space, with over a hundred companies in the portfolio, and added London to the locations in Taipei, Beijing, ShenZhen, San Francisco and Tel Aviv. Over a third of the companies are involved in enterprise applications, reflecting the importance and potential of this market.

HTC DeepQ Healthcare

The HTC DeepQ Healthcare business unit comprises cross-domain experts and engineers in areas such as computer science, software engineering, medicine, regulations, user experience, design, through virtual and augmented reality, big data and artificial intelligence technology, with the goal of developing and providing precision personalized medical products and services to reduce costs and improve the effectiveness of healthcare. Several AI innovations were launched over the year, including medical service chat robots for general healthcare, epidemic prevention and disease management.

Financial Performance

January 2018 saw the completion of the business cooperation agreement with Google Inc., and the transfer of US$1.1 billion to HTC contributed to a net income for the year of NT$12.0 billion, corresponding to an earnings per share of NT$14.72.

On the operations side, the nascence of the virtual reality market combined with continued intense competition in an ever more saturated smartphone market with longer product replacement cycles, sustained the pressure on business performance over the year, with total revenues coming in at NT$23.7 billion, with a gross margin of 2.2% and an operating margin of –58.8%. The sequential increase in gross margin over the year reflected the change in portfolio mix, as well as our continued focus on reducing operating expenditure across the business.

The integration of the sales, marketing and operations of the VIVE and smartphone businesses in the regions enabled the company to streamline internal expenditure and processes as well as external costs, while further cost-savings were realized by realignment and reorganization across manufacturing operations, property management, internal systems and platforms, and administration. The changes put in place over the year will place the company on a stronger financial footing going forward.

Operations

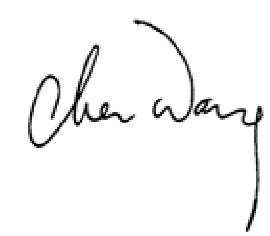
HTC continues to advance factory automation and testing across all product lines, continually improving quality standards and customer satisfaction ratings, at the same time transforming the cost structure of the business; over the latter half of 2018, manufacturing cost reductions have comfortably exceeded strict target levels. Today, there is much closer collaboration between manufacturing and the R&D teams to optimize production and continuously improve manufacturing processes, as well as seeking areas to reduce our emissions and raise our power efficiency.

The transition of our 'Powered by HTC' teams to Google early in the year went very smoothly, with Google sharing HTC buildings in both our Taipei and Taoyuan facilities.

As HTC transitions to a full ecosystem company, data security becomes a major objective for the Company, to ensure customer trust and reassurance. Accordingly, our IT and Legal teams executed a full company roll-out of the EU's strict new data protection directive, the General Data Protection Regulation that came into force in mid-2018, which defines the way consumer data is handled across every sector. The internal roll-out included comprehensive training in all regions and with all relevant functions, and an external audit awarded HTC full compliance with the GDPR requirements as well as BS10012 certification in late 2018.

At the end of a year with significant positives, we wish to express our appreciation to our shareholders, and look forward to your continued support as we complete our transition to a full ecosystem company.

HTC Corporation
Chairwoman and CEO



2

COMPANY PROFILE

COMPANY PROFILE

About HTC

HTC is an innovation company, creating powerful new products, solutions, and platforms in mobile computing and immersive technologies. Beginning with a vision to put a personal computer in the palm of our customers' hands, we have led the way in the evolution from palm PC to smartphone, and are now applying that same innovative approach to connected devices and virtual reality.

At the heart of this is a bold entrepreneurial spirit of pushing new boundaries, while leveraging the capabilities we have developed in our history in the pursuit of brilliance.

The notion of Dare to Dream is at the heart of our daily ambitions. We ask fundamental questions at the intersection of customer aspirations and our capability to delight and surprise with innovative solutions. We challenge ourselves and our customers to achieve their full human potential. What's your dream? Can you visualize it? Will it shift our perspective? Will we feel it? The future belongs to the dreamers to power creation and innovation. Because our dreams power the future. Dare to Dream.

As we live this philosophy of Dare to Dream, we employ powerful technologies and combine them in creative new ways in order to deliver this. At this time in history, mobile, VR, AR, 5G, AI, and blockchain are evolving and coming together with the potential to deliver utility and experiences previously unavailable. We call this VIVE Reality.

Our future is enhanced in a world where HTC innovation and VIVE experiences blend to create a new reality.

There are three important pillars to ensuring our approach is true to our intentions:

Humanity

For HTC, our innovation is human-centered in the broadest sense. We endeavor to expand our vision to impact people's lives in ways never before considered.

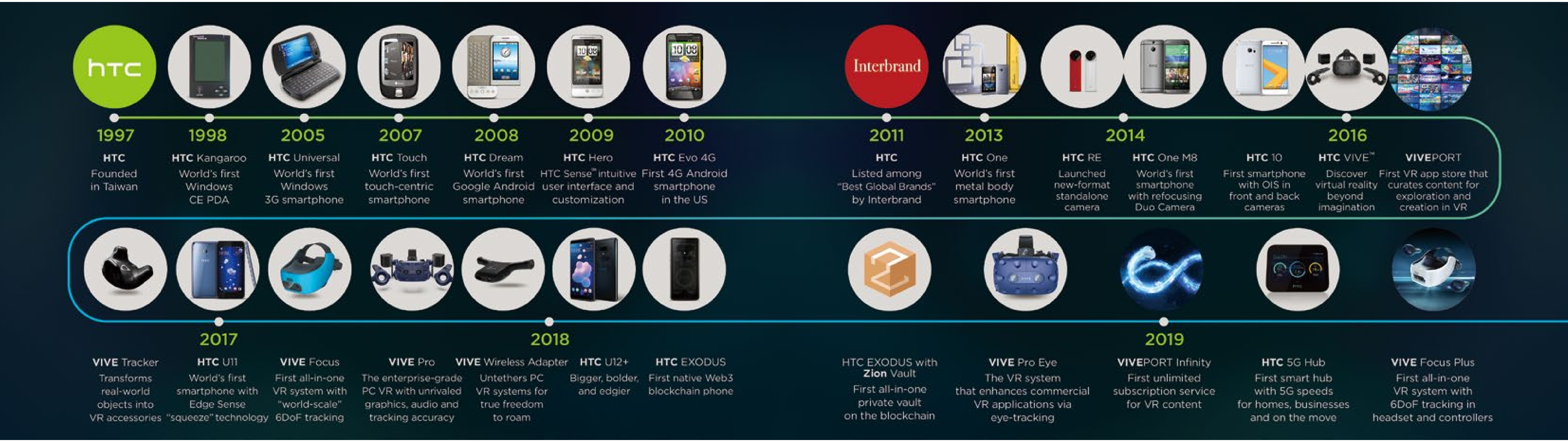
Technology

Our history and commitment to technology excellence is the great enabler of our pursuits. We strive for a world in which customers, large and small, have access to the most powerful hardware, platforms, tools, and services.

Imagination

Imagination is one of the most powerful tools we know, and one we seek to unlock. A world where a continuum of immersive realities is possible, and experience is unbounded.

This Dare to Dream philosophy and approach are reflected in a steady stream of world-class innovation, as we continue to advance new products in VR, mobile, and 5G with greater capability and convenience. We also continue to advance our societal, environmental and cultural initiatives, and our support of education. From our people to our products, Dare to Dream represents a guiding philosophy that energizes HTC as a global organization.



Company History

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

Professional PDA Designer

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

Smartphone Leader

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

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

HTC Brand

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

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

In 2014, HTC undertook to evolve its brand strategy and identified our organizational purpose: to bring brilliance to life by striving to develop innovation that fosters human connectedness. The pursuit of brilliance is at the heart of everything we do. It is the impulse to create, to venture into the unknown with an unwavering dedication to bring innovation to life. It pushes us every day to re-imagine new ways to connect the world, our consumers, and their pursuits in ways never before thought possible. By streamlining our communication channels, we deliver simplified and consistent brand messages to enable consumers to better understand our brand vision. Through the reinforcement of global social media and interaction with users, we establish strong social engagement and amplify the message of our connections to each other.

HTC VIVE was founded four years ago on the uniting of humanity and technology to unleash the imagination; redefine possibility and sparked by the imagination to create something that's never been. Explore and create whole new experiences with the unlimited potential of HTC VIVE.

Early in 2018, we defined a new vision for HTC, a vision to unite all teams and businesses around a single direction: VIVE Reality. VIVE Reality represents the convergence of the cutting-edge technologies of VR, AR, AI, 5G and Blockchain, combined with our humanity to unleash people's imagination; to create a world of experiences that haven't been dreamed of before.

Diversification into Connected Devices and Virtual Reality

In 2014, HTC began to seek new fields to apply our distinguished heritage in design, engineering, manufacturing excellence, and innovative thinking. Starting with the fitness industry, HTC partnered with leading fitness brand Under Armour® to launch the UA HealthBox™, providing comprehensive and holistic information to users and enabling them to monitor and improve their performance. In 2015, HTC also partnered with Valve®, a powerful PC gaming brand, to unveil the HTC VIVE Pre developer kit andcreate an immersive experience to change the way people communicate, play, learn, and train. Furtherdemonstrating our commitment, we redesigned every detail to provide a more comfortable, ergonomic feel as well as the best performance in virtual reality. Later, HTC VIVE Pro continued to empower users to create a world without limits. HTC VIVE's breakthrough development earned universal media and consumer acclaim, taking an important step forward by leading the global virtual reality industry into the consumer market.

We have invested considerably in software and platform in order to empower developers to create compelling VR content, appreciating that a robust ecosystem and diverse content are key factors in growing the VR market. HTC established and played important roles in building a number of different industry alliances, including forming the Asia-Pacific Virtual Reality Industry Alliance in April of 2016 and serving as a founding member of the Global VR Alliance. Since 2015, HTC has held various VIVE developers' summits and VR ecosystem conferences to affirm HTC's leading position in the market. In October 2018, HTC held the World Conference on VR Industry and created a new era of 6DoF VR experiences. We also rolled out the VIVE X accelerator program in the same year to help cultivate, foster, and grow the global VR ecosystem by supporting startups and providing them with education, investment, and mentorship. There are six VIVE X locations around the world, including San Francisco, London, Taipei, Shenzhen, Beijing, and Tel-Aviv.

In 2017, to inspire innovators to create and support United Nations' Sustainable Development Goals, HTC started the "VR for Impact" project, a multimillion-dollar fund program dedicated to showing how VR can lead to positive impact and change to make us more proactive in helping humanity solve some of the most difficult challenges facing our world today. In early 2018, we announced a partnership with World Economic Forum (WEF) to drive VR/AR for Impact initiatives forward. We continue to design and create experiences as part of the collaborative, ongoing commitment to foster and champion the use of VR/AR to educate and empower humanity as well as transform the world.

HTC has long been committed to digital innovation in the field of art. Launched in 2017, VIVE Arts is a global art initiative to enable and preserve cultural heritage for the world, and to democratize creation with digital innovation in the arts. VIVE Arts partners with artists, museums, and other cultural institutions to create immersive art works with the world's leading HTC VIVE virtual reality technology, enabling global audiences to access diverse art through VR, whether in museums or at home. VIVE Arts has more than 40 partners worldwide, including many cultural institutions, such as Tate Modern in London, Musée d'Orsay and Musée de l'Orangerie in Paris, American Museum of Natural History in New York, Art Science Museum in Singapore, and National Palace Museum in Taipei, among many others to provide the most advanced technology support for the artistic creation of the new era.

In 2018, HTC continued to invest a number of resources to promote the industry's development, expand the ecosystem in hardware, software, and platform to inject more innovative and diverse experiences in the industry. Launched in 2018, VIVE Pro's new upgraded HMD, higher resolution display and built-in headphones and amplifiers continues to receive acclaim around the world and is well received by in business community. HTC also announced the premium enterprise VR solution including VIVE Focus enterprise version, VIVE Focus exclusive open platform, the developer kit, VIVE WAVE VR SDK and new enterprise VR collaboration, VIVE Sync, in 2018. These latest advancements in premium VR not only offer best-in-class technology and content, but also strive to redefine how VR is accessed and experienced for both consumers and enterprise.

Pioneer in New Mobile Communications Era

As we enter the next phase of technology, we believe the future will be led by the cutting-edge technologies of VIVE Reality. The advancements in AR, VR and our platform and content, as well as artificial intelligence, blockchain, and high-speed connectivity will unleash people's imagination and change the way we live, work, play and believe.

We believe that when the 5G era comes, the world will be connected through ubiquitous connections and open up endless possibilities. HTC is again at the forefront of strategic emerging technology and is paving the way to 5G for consumers around the world. At the end of 2018, HTC partnered with U.S. telecommunications giant Sprint to entered the U.S. 5G market and launched the HTC 5G Hub globally in February 2019. HTC 5G Hub enables customers to enjoy the high bandwidth and low latency of 5G to meet the needs at both home and in theoffice with a creative and portable design. 5G will be the game-changer for VR and AR, delivering our vision of VIVE Reality, a boundless, immersive environment where human experiences will come to the forefront.

Product Development

For more than 20 years, HTC has been at the forefront of mobile innovation and delivering to consumers the technologies and experiences that have made smartphones a vital part of our everyday lives. More recently, we have been at the cutting edge of virtual reality, bringing the HTC VIVE to market as the first and still the most advanced room-scale VR experience. Now, HTC is building an ecosystem for the coming of 5G. When 5G arrives, we will realize our vision of VIVE Reality. Just as HTC led previous connectivity generations, we are now working hard to bring 5G to market. The advancements in AR, VR, as well as artificial intelligence, blockchain will bring powerful influences and change the way we live, work, play, and believe.

5G

HTC 5G Hub

HTC 5G Hub was unveiled in February 2019. Designed for ease of use in both home and office environments, this versatile device enables smooth 4K video streaming, low-latency gaming, and 5G mobile hotspot features for up to 20 users. The HTC 5G Hub allows customers to use 5G on multiple devices while on the go, at work, or at home for fast connectivity, content sharing, entertainment and more.

A 5-inch HD touchscreen allows for ease of use and high-quality visuals, and long-lasting power makes for a travel companion that harnesses 5G speeds dramatically faster than 4G LTE networks. As a home media center, the HTC 5G Hub uses next-gen 5G speeds to stream 4K videos to a second screen and deliver crisp, clear content. It can also replace a Wi-Fi router and remove unnecessary cables with an easy to use plug-and-play setup. Intuitive voice command and

remote-control features make it quick and easy to manage entertainment and productivity needs. For gaming, HTC 5G Hub offers ultra-low-latency, 60fps and 4K resolution.

HTC 5G Hub is powered by the Qualcomm® Snapdragon™ 855 Mobile Platform with the Snapdragon X50 5G Modem and antenna modules with integrated RF transceiver, RF front-end (RFFE) and antenna elements. Along with Android™ 9 Pie, this allows for unprecedented download speeds and power for native Android and PC games supported on the large screen. This product is also at the forefront of cloud-based virtual reality (VR) technology. In the future, users will be able to stream VR content from the cloud to a VIVE Focus headset via the HTC 5G Hub—no PC or unnecessary cables required—to enjoy a mobile, high-end VR experience in real time.

Smartphones

HTC U12+

The HTC U12+ was announced in May 2018. It is the latest showcase of cutting-edge innovation, unrivaled usability, and extraordinary design. The U12+ is HTC's biggest and boldest flagship phone ever, including a vivid 6" display with cinematic 18:9 widescreen, yet it is also easier to use with Edge Sense 2 for intuitive one-handed interaction for snapping photos, calling up voice assistants, or virtually anything users may want to do. Equipped with the Qualcomm® Snapdragon™ 845 Mobile Platform with X20 LTE that will extend the way people see, hear, and interact with the world around them.

The HTC U12+ features the new Edge Sense 2. A new touch feedback experience turns the edges of U12+ into the easiest and most intuitive way to interact with the phone. The new Edge Sense knows which hand the user are using, giving the user one-handed freedom to double tap to navigate the device, hold to lock the screen orientation, or squeeze the sides for taking photos and videos, zooming in on maps, and virtually any interaction. It's so good, the U12+ received a DxOMark score of 103 – the highest rated camera in the industry for a dual camera smartphone. The highest-rated dual camera: Two cameras on the front and back deliver beautifully artistic photos with DSLR-like bokeh. UltraSpeed Autofocus 2 includes full sensor phase detection autofocus and new laser autofocus to ensure consumers never miss a shot, while HDR Boost 2 lets them take fantastic photos in any lighting condition. The main camera's 2x optical zoom and 10x digital zoom for photos means consumers are always ready for a close-up, while video with Sonic Zoom lets the user "zoom in" on a sound or voice so the user are truly the director of the scene.

Incredible, pulse-pounding sound with louder-than-ever BoomSound speakers and USonic earbuds featuring Active Noise Cancellation to keep out unwanted distractions. USonic matches the unique structure of the user's ear to shape the sound perfectly for them, so they hear every high note with crystal-clear precision and every bassline with thundering power. The HTC U12+ showcases an even more artistic design featuring ultra-thin screen borders and new pressure-sensitive buttons encased in vibrant colors unlike anything they've ever seen.

HTC U12 life

Announced in August 2018, HTC U12 life continues the design concept of HTC U series to provide amazing photos and the freedom to express. HTC U12 life features a remarkable dual finish that offers a stunningly fresh take on design. Equipped with a best-in-class dual camera, artistic bokeh is only a simple tap away. Users can also shoot beautiful 4K videos with amazing clarity. With all the details of 4K, hi-res videos will be powerful and influential.

Inspired by HTC's own cutting-edge liquid surface and dual color metal, HTC U12 life has a unique dual finish featuring soft, subtle stripes on an acrylic glass unibody with a metal-like design. HTC believes enjoying quality content - movies, videos, games, whatever - shouldn't be compromised. That's why HTC is providing users with an 18:9 screen with a full body view. The incredible contrast and vivid display will keep users captivated no matter what they're viewing. With gorgeous display and download speeds of up to 600mbps, users will want to surf, play, watch and a whole lot more.

HTC U11 EYEs

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

HTC U11 EYEs is equipped with a dual front camera, providing HDR enhancement, instant depth preview, 10 full-range beauty modes, and 3 excellent self-portrait functions. HTC U11 EYEs also significantly enhances the quality of cameras and videos. Even in low-light environments, the camera can capture images with ease. HTC U11 EYEs uses the dual front-mounted cameras for facial recognition and unlocking to provide an easier and more convenient unlocking experience. With HTC Edge Sense, not only can users access their personal gestures and shortcuts through Edge Launcher, but they can also use it to wake up the smartphone. With HTC Edge Sense, consumers can quickly activate face recognition and unlock the phone by gently pressing and holding the side of the phone, allowing users to easily unlock their phone just by looking at the camera.

HTC Desire 12+

HTC Desire 12+ was announced in March 2018. HTC Desire 12+ boasts our biggest 6" display in the Desire series. Paying tribute to the HTC U11 series of liquid surface heritage, HTC Desire 12+ adds a durable acrylic glass on the back-cover surface resulting with a new streamlined look. The seamless frame and beautifully curved edges have a luxurious feel, and the dynamic colors add to the user's own unique style.

The dual cameras on HTC Desire 12+ capture multiple focal points simultaneously allowing the photographs to be refocused after they are taken or add a bokeh effect. Bokeh mode delivers sharp foregrounds and naturally blurred backgrounds for more artistic photography. The large F2.0 aperture in the front camera of the HTC Desire 12+ lets in more light for accurate details in low light settings. The front-facing LED flash allows for clear and well-lit photographs and users can also enjoy the soft-tone selfie light for a natural glow in any environment.

HTC Desire 12

HTC Desire 12 was announced in March 2018. This stunning 5.5" display fits elegantly into users' hands. The modern and sleek design exhibits the beauty of the U series with the iconic liquid surface wrapped around the most compact and lightweight 18:9 phones we have ever made. Combined with 2.5D 18:9 display, HTC Desire 12 provides users a better visual experience and the comfort and convenience by holding with a single hand.

Capture beautiful and vivid photographs, day or night, with the 13-megapixel main camera on the HTC Desire 12 and the Phase Detection Autofocus will ensure clear details even if the subject is on the move. HTC Sense Companion is the personal AI assistant that optimizes the phone's performance and help keep users organized in their daily lives.

HTC Desire 12s

HTC Desire 12s was announced in December 2018, continuing the HTC Desire 12 series of entry-level smartphones in the market, it brings consumers a new look from its design. Unique dual-quality design, incorporating the design concept of the flagship products, HTC Desire 12s introduced the seamless laser engraving, taking aesthetics and comfort into consideration. Comprehensive upgrades in specifications and functions including eight-core processors, 13 million pixel front and back camera, 2CA carrier aggregation, fingerprint recognition, NFC, VoLTE and VoWIFI, providing consumers with a comprehensive user experience at a low cost.

HTC Desire 12s features the highest 13 megapixel front camera in the entry-level smartphones. LED flashlight captures bright photos under dark condition. Phase autofocus (PDAD) and f/2.0 aperture provide fast focus and excellent light sensitivity, making it easy for users to record the precious moments in life any time, anywhere. HTC Desire 12s is equipped with NFC which can turn a smartphone into Easy Card, iPASS, or credit card. Built-in fingerprint identification enhances the security of the e-wallet, allowing users to securely enjoy the convenience of mobile payment.

Virtual Reality

VIVE Pro

Launched at CES 2018 and shipped in the second quarter of 2018, the VIVE Pro is a new head-mounted display (HMD) upgrade from VIVE, built for VR enthusiasts and enterprise users who want the best display and audio for their VR experiences. VIVE Pro is the first HMD to pass all the first-level indicators in the "General Specifications for Virtual Reality Head Mount Device" (T/IVRA 0001-2017) of China Electronics Standardization Institute (CESI). VIVE Pro also has won the "Best VR Headset" award to the 2018 VR Annual Awards Ceremony.

VIVE Pro delivers immersion unlike any other: true-to-life precise tracking, ultra-vibrant colors, and uber-realistic sounds create a world that transports the user to any scene in split seconds. The VIVE Pro includes dual-OLED displays for a crisp picture resolution of 2880 x 1660 combined, a 78% increase in resolution over the HTC VIVE HMD. The VIVE Pro also features integrated, high-performance headphones with a built-in amplifier to offer a heightened sense of presence and an overall richer sound. The VIVE Pro's new head strap was built with enhanced ergonomics and comfort, including a sizing dial for a more balanced headset that decreases weight on the front of the headset.

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

VIVE Pro Eye

VIVE Pro Eye was announced at CES 2019 in U.S and set a new standard for high-end VR headsets. Built for the most demanding professional users, the new VIVE Pro adds precision eye tracking to its renowned feature set of world-class graphics, high-end audio, and expansive modular tracking. Providing a more intuitive way to interact, VIVE Pro Eye features precise eye movement tracking and analysis enabling quicker reaction times, easier navigation and access, and an enhanced understanding of what users see and when.

The eye-tracking simply looks at the target and aim with precision with no need to even point with the controllers. Maneuvers are faster and more intuitive than ever. Moreover, eye tracking allows for foveated rendering, which properly allocates GPU power to focused objects and areas for sharper images. VIVE Pro Eye will allow businesses and developers to gather more data about their training environments, help optimize computer and VR performance, and offer product design and research groups unprecedented levels of feedback.

VIVE Pro Eye is equipped with Hi-Res Certified 3D Spatial audio technology for users to add life-like dimensions to simulations. The high definition image quality brings more immersive experiences for virtual reality enthusiasts. Engineered top-down for maximum comfort, the VIVE Pro headset is made for easy on and off, prolonged use, and accommodates a wide range of head sizes, vision types, and even glasses. With the VIVE Wireless Adapter, users can enjoy true freedom with the most powerful VR wireless solution.

VIVE Cosmos

VIVE Cosmos was unveiled at CES in January 2019. VIVE Cosmos is the newest VR headset from VIVE, offering absolute comfort, and ease of set-up and use-ensuring consumers can access their virtual world whenever their life may call for it. VIVE Cosmos with no external base stations required, and maximizes the flexibility of usage space, whether at home or on the go, and has the capability to be powered by more than a traditional gaming PC. With the introduction of VIVE Cosmos, HTC aims to redefine how VR is accessed by offering a headset that is quick to set up and use and can be taken on the go to new play environments. VIVE Cosmos will be the first VIVE headset to feature the "VIVE Reality System," an entirely new design experience for VR.

VIVE Cosmos offers users our sharpest screen ever. The new pixel-packed display with minimal screen-door effect delivers crystal-clear graphic bringing every detail in VR alive. With wide and accurate tracking, gesture controls, a six-degrees-of- freedom (6DoF) headset-and-controller setup, and VIVE Cosmos' innovative flip-up design, user can jump between reality and virtual reality in seconds— all without disrupting immersive journeys. Besides, with a soft texture and light, breathable materials, the feel of VIVE Cosmos' crown is something everyone can get behind.

VIVE Focus

VIVE Focus officially entered the global market in 2018. VIVE Focus is the first 6DoF stand-alone VR headset to be commercially available. Without the need to be attached to a PC or a phone, the VIVE Focus is designed to deliver a premium VR experience with unparalleled convenience and comfort. Built-in battery, central processor and surround speakers allow users to experience robust VR at home or outside. VIVE Focus is once again recognized by winning international design award of the Gold Award of International Design Excellence Award 2018 (IDEA 2018) for its outstanding product design.

The VIVE Focus is equipped with high-resolution 3K AMOLED screens, Qualcomm® Snapdragon™ 835 processing, and world-scale tracking right out of the box. The VIVE Focus delivers a compelling experience through world-scale tracking. Its one-of-a-kind triangle support design distributes weight and pressure while still delivering a stylish design. The adjustable hinge design and the water-repellent faux-leather paddings provide the most comfortable wearing experience. This thoughtful design will fit seamlessly into the user's own personal taste and lifestyle.

VIVE Focus Plus

VIVE Focus Plus was unveiled in February 2019 and is a professional-grade, portable VR solution for enterprise applications. Equipped with immersive six-degrees-of-freedom (6DoF) controllers, improved graphics and ergonomic comfort, this all-in-one VR system is ideal for showrooms, training simulations, virtual conferences, and more. VIVE Focus Plus furthers our commitment to rapidly iterate and refine the VR market for both businesses and consumers.

VIVE Focus Plus offers two ultrasonic 6DoF controllers featuring an analog trigger that gives users the ability to control objects or interactions with pressure-sensitive input, making experiences truly immersive. VIVE Focus Plus has new fresnel lenses which offer a sharper visual to reduce any screen door effect and create a crisper, more true-to-life visual for users to truly immerse the headset use. Additionally, with the aid of the WAVE platform and SDK tools, porting from PC-based VR to VIVE Focus Plus will be relatively easier for developers.

VIVEPORT

VIVEPORT is the leading app store for virtual reality, where customers can explore, create, connect, and experience the content they love. VIVEPORT announced that VIVEPORT Infinity, the first unlimited VR subscription service, in January 2019. VIVEPORT Infinity members will gain unrestricted access to the service's library of over 600 apps and games in addition to exclusive membership benefits such as weekend deals on select titles, free title giveaways, and money coupons. the revamped VIVEPORT Video application. VIVEPORT Infinity has built a new model for VR that shines a light on the great library of VR content this industry has developed and gives users a reason to spend more time in the headset than ever before. Moreover, it can increase developer reach and potential revenue as more developers can monetize a single Infinity user.

VIVEPORT Infinity offers a diverse library of popular and indie VR titles. Members can save thousands of dollars on top-quality content while aiding them in the discovery of hidden gems throughout the service. VIVEPORT Infinity will be available to VIVE and Oculus Rift owners. For compatible titles, VIVEPORT Infinity will also travel with members to any standalone headset built on VIVE's WAVE platform. This hardware agnostic and cross-platform approach is bringing the service to a whole new category of VR devices while broadening a developer's reach and audience pool.

Healthcare

VIVEPAPER

In October 2016, HTC DeepQ Healthcare launched a novel augmented reality reading system called VIVEPAPER. VIVEPAPER renders virtual multimedia content on a piece of physical paper made out of card stock. When viewed through the display of a head-mount device (HMD), the paper appears as a multimedia book. HTC DeepQ Healthcare has collaborated with several medical universities and hospitals to develop surgical training, long-term care, nursing technique training, health education, and first aid medical content with VIVEPAPER, creating rich immersive and interactive VR media materialsand inspiring more people to learn and grow . In the future, HTC DeepQ Healthcare will work with more hospitals and schools to develop related medical content to help break through the bottleneck of traditional medical education.

DeepQ AI Platform

HTC DeepQ Healthcare launched the "DeepQ AI Platform" in 2018. "DeepQ AI Platform" dramatically reduces learning thresholds and the cost of AI model training through an optimized training environment, built-in multiple AI models, fully automated parameter adjustments, and a simple user interface. Different from other existing AI training platforms and services available on the market, DeepQ AI Platform can quickly convert users' own labeled data with AI model training without the effort of writing and designing a whole newdeep learning program.

Blockchain

HTC EXODUS 1

HTC EXODUS 1 has received applause and respect from the blockchain community since the early access announcement in October 2018. Continuing the the flagship of HTC, EXODUS 1 is the world's first native web 3.0 blockchain phone with the HTC-developed hardware wallet, Zion, providing users with a secure and user-friendly private vault on the blockchain. Using the Trusted Execution Environment (TEE), EXODUS 1 provides effective and military-grade security for users' cryptocurrencies and assets. Also, the industry-exclusive Social Key Recovery extends the protection and convenience of recovery users' keys.

We're rebuilding trust and security, one phone at a time. Under the current structure, most of our private data, our preferences, and even our assets are being controlled by large corporations. this data are all part of our information but are being held, sometimes for profit, by large corporations. Following the core values of blockchain and decentralization, EXODUS believes in empowering users to own their data. In addition to not collecting user data, EXODUS also works with partners with the same fundamental beliefs to provide more services while keeping our users secure.

With the support of HTC, Proof of Capital, a $50M blockchain-focused venture capital fund was launched in April 2019 with a mission to build an internet ecosystem that belongs to everyone and to usher in worldwide adoption of blockchain technology. Proof of Capital will invest and partner with big thinkers and exceptional founders who are building market-transforming companies focused on fintech (payment, remittance, custody, wallet), infrastructure (security, identity), hardware and consumer layers of the blockchain ecosystem.

As part of Forbes' inaugural "Blockchain 50" list, HTC EXODUS was selected as one of the 50 leading companies that are actively exploring blockchain through industry consortiums. Since the launch, HTC EXODUS has been pushing for security and privacy for its users globally and this nomination is one of many example of its dedication to developing blockchain technologies.

Board of Directors and Supervisors

Cher Wang HT Cho Wen-Chi Chen Chen-Kuo Lin David Bruce Yoffie Josef Felder Jerry H.C. Chu Shao-Lun Lee

Board of Directors

Cher Wang
Chairwoman

Wen-Chi Chen
Director

HT Cho
Director

Chen-Kuo Lin
Independent Director
Member of the Compensation Committee

David Bruce Yoffie
Director

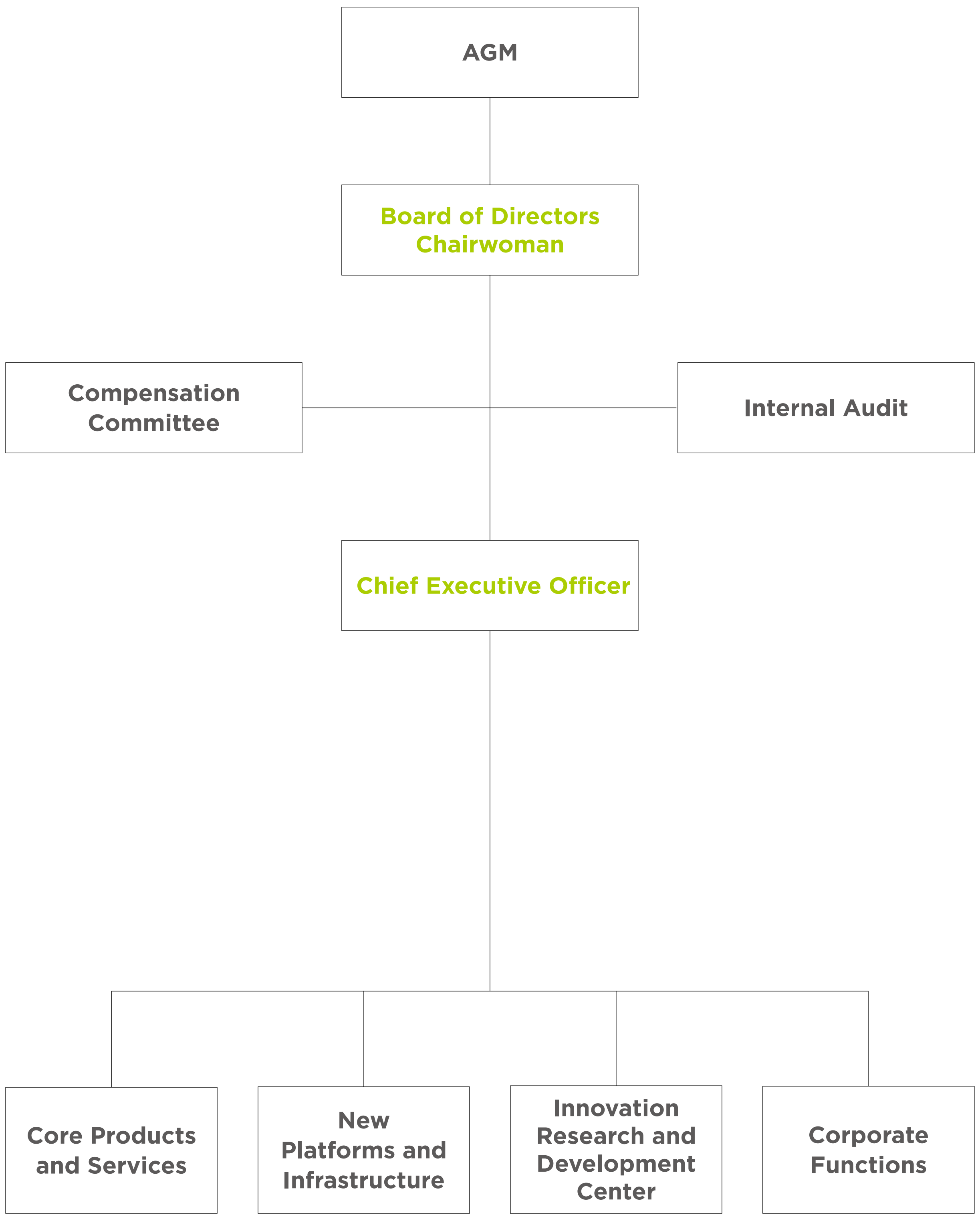
Josef Felder
Independent Director

Board of Supervisors

Jerry H.C. Chu
Supervisor

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

Organization



Organization Functions

Core Products and Services

Global Virtual Reality and Smartphone business including Product Engineering, Sales & Business Development, Operations, Strategy Planning, Execution and Management.

New Platforms and Infrastructure

Value Innovation Businesses including Technology, Platform & Ecosystem Development, Strategic Planning and Commercialization of Artificial Intelligence, Healthcare, Blockchain and more future technologies.

Innovation Research and Development Center

Research & Development for exploring Advanced Technology, Product Development & Engineering and Innovations continuously.

Corporate Functions

Include Finance & Accounting, Legal, HR, IT, GA as well as the manufacturing and production managements.

Internal Audit

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

Worldwide Office Locations

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

Key HTC Operation Centers

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

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

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

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

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

HTC Communication
Beijing Office
South area 501, 6F, VIA Building, Building 7, No.1
Zhongguancun East Road, Hadian District , Beijing,
100084, China
Tel: +86-10-65171108

HTC Communication
Shanghai Office
1F, D Building, China Core Science Park, No. 2557
Jinke Road, Pilot Free Trade Zone, Shanghai China
Tel: +86-21-33760100
Fax: +86-21-53088885

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

HTC Communication Technologies (SH)
Shanghai Office
2F, D Building, China Core Science Park, No. 2557
Jinke Road, Pilot Free Trade Zone, Shanghai China
Tel: +86-21-38130008
Fax: +86-21-50135086

3

BUSINESS OPERATIONS

BUSINESS OPERATIONS

Brand Strategy

While “Quietly Brilliant” and “the Pursuit of Brilliance” are deeply rooted within HTC’s corporate culture, we have a unique opportunity to relate the energy and vibrance of the VIVE brand back to the parent company to increase its appeal and relevance. At the same time, the HTC parent brand can act as an even more effective endorser of its brands like VIVE for virtual reality and EXODUS for blockchain by re-asserting itself as an engine of innovation.

HTC’s approach is to Dare to Dream, so that we might unlock the full human potential of our customers, employees, partners, and other stakeholders.

While we expanded from producing and marketing world-class smartphones into the exciting technology of connected devices and virtual reality, we are seizing the opportunity to re-energize the HTC brand story through the notion of an innovative parent company that will Dare to Dream, while expanding the VIVE and other brands to new audiences and segments.

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

HTC’s approach to brand building is meant to be both pragmatic and effective, and is based on principles including:

Authenticity: Being authentically true to the nature of our mission, and the belief that we can improve human lives and experience while creating value.

Entrepreneurial approach: We are agile, attentive to costs, and aim to achieve maximum effectiveness through an obsessive and energetic approach to building our brand.

Innovative products: For many customers, our products and services are the most concrete expression of our brand. By delivering a steady stream of innovation in mobile, virtual reality, 5G devices, blockchain, and related areas, we create proof through action.

Integrated solutions: Far more than just a hardware company, we deliver true solutions through platforms, software, and services to create positive experiences and net promoter scores with our customers. Our VIVEPORT store provides access to content, VIVE Studios creates software, and VIVE Enterprise engages business customers with full solutions.

Broader audiences: By continuing to improve and simplify our products and user experience, and support a broader range of software, we aim to access new customer segments.

Developing the ecosystem: Through VIVE X, we support and help develop the ecosystem for advancing VR, AR, 5G, AI, and blockchain. We create opportunities to work closely with our portfolio companies to explore mutually beneficial ways to advance entrepreneurial innovation. Through VIVE Wave, we help enable other hardware companies to deliver VR. And through our industry alliances and VIVE Ecosystem Conference, we build a powerful foundation for the industry while advancing our industry thought leadership.

Leveraging PR and social media: We develop the types of products that people love and want to learn more about, that spark their curiosity and tap into their imagination. These make for great stories and social engagement, which are among the most effective ways to build a brand, and are a focus of our efforts on that front.

Building community, forging customer relationships, and offering services that increase lifetime value: We have moved well beyond the transactional nature of selling consumer electronics to developing an ongoing relationship with our customers. Through our platform, software, and service offerings, we can continue to engage with them, as well as increase customer lifetime value.

Business Activities

Business Scope

HTC continues to provide consumers with the richest and most profound experiences through innovative technologies in the field of mobile communications. As we enter the most important phase of technology, the cutting-edge technologies in our vision of VIVE Reality will continue to lead the way in our product portfolio. The advancements in AR, VR and our platform and content, as well as artificial intelligence, blockchain, and high-speed connectivity will change the way we live, work, play, and believe.

5G

2019 ushered in a new era for 5G. Looking forward, 5G will open up new possibilities with its powerful bandwidth and innovative technology. Distance and time will be redefined through high-speed and low-latency networks among the Internet of Things (IoT) and the Internet of Vehicles (IoV), as well as people-to–people and machine-to-machine networks. Likewise, HTC is well poised to lead these new technological trends. In 2018, we started to cooperate with world-renowned manufacturers and regional large-scale operators to launch the 5G Hub and supported 5G trial operation and testing. In the coming year, we will continue to invest in the research and development of new 5G developments and products that combine our VR/AR and AI technologies to further enhance and implement our 5G strategies.

Smartphones

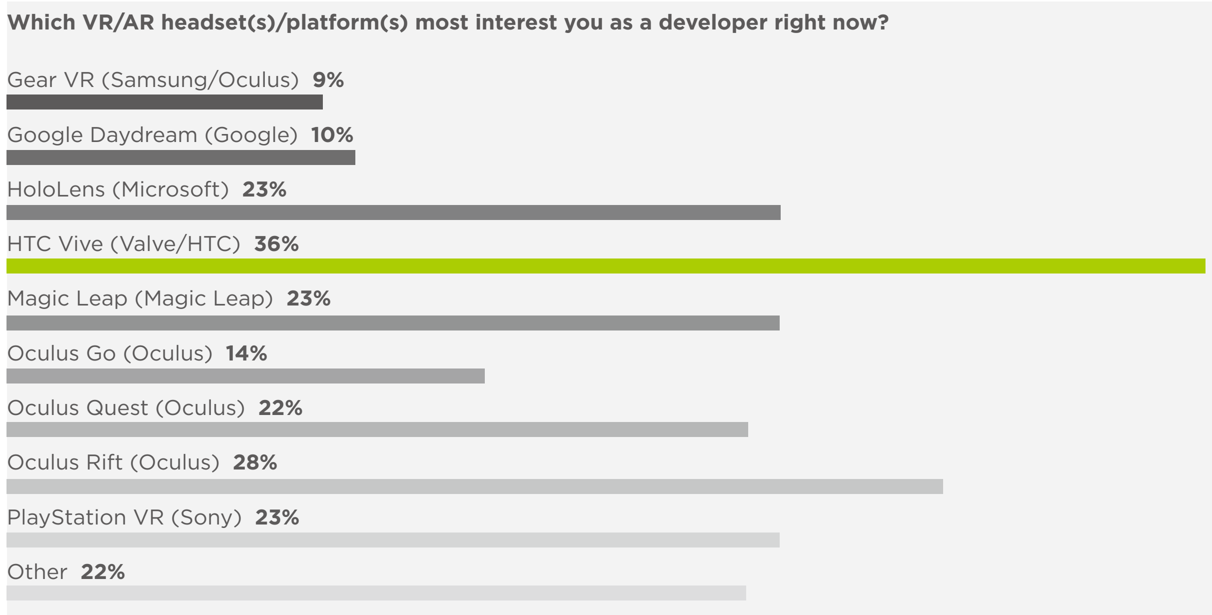
With years of smartphone technology and long-term accumulated industry knowledge, HTC continues to invest in innovative technology research and product development. In terms of technology, we continue to expand HTC's original side-frame sensing technology with advanced Edge Sense 2, which enhances the perfect user experience with one-handed operation. Highlighting our efforts on what consumers most love, camera photography, we received top marks from DxOMark and HTC U12+ ranked as the highest standard with 103 points in the industry. In 2018, HTC released various smartphones, covering all market segments and price bands: the flagship HTC U12+, the mid-to-high-end HTC U12 life, and mid-end HTC Desire 12 | 12+, all reflecting HTC's consistent perseverance and commitment to consumers to present the most perfect experience with a variety of products that meet the unique needs of each customer.

Virtual Reality

HTC VIVE

The HTC VIVE virtual reality system was released in February 2016 and became the world's first premium consumer virtual reality system with true room-scale tracking. In the two years since its introduction, VIVE not only drives the virtual reality industry, but is also leading the development of the VR ecosystem. According to the 2019 GDC Gaming Industry Report, HTC VIVE ranked as the most popular head-mounted display device (HMD) of all VR/AR devices for three consecutive years, with 36% of developers preferring to develop on VIVE systems over other systems.

2019



Source: VRDC VR/AR Innovation Report, Game Developers Conference

In 2017, HTC launched the VIVE Focus, the first high-end standalone VR device supporting six degrees of freedom (6DoF), and provided to the vast consumer market and advertising, enterprise users around the world.

In November 2017, we announced the VIVE Wave VR SDK platform. This allows OEMs to implement the VIVE Wave SDK on their devices to help stimulate the VR ecosystem and reach more consumers. This initiative also allows VR developers to reach many more potential customers across different hardware platforms. Meanwhile, hardware vendors can concentrate on device innovation and fundamental VR technology development, with access to high-quality VR content available on the VIVEPORT.

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

At CES 2019, HTC unveiled the brand new VIVE Pro Eye, VIVE Cosmos, VIVEPORT Infinity program, and the VIVE Reality System. HTC gained the world's attention and were honored with countless awards. Most importantly, HTC once again redefined premium VR with a high-quality user experience for both consumers and enterprises through revolutionary hardware and software applications as well as content services.

HTC's vision of VIVE Reality represents the convergence of the world's cutting-edge technologies VR, AR, AI, 5G and blockchain, infused with our humanity to unleash people's imagination; to create a world of experiences that hasn't been dreamed of before.

HTC's hardware and software innovation is enabling a wealth of content for enterprise, culture, art, education, healthcare, and more, and our VIVEPORT platform enables everyone around the world to quickly and easily discover great new experiences.

VIVEPORT

VIVEPORT is the leading app store for virtual reality, where customers can explore, create, connect, and experience the content they love, and it represents a new business model for HTC. In addition to the VIVEPORT Arcade and VIVEPORT M editions, in 2017, we successfully launched a new business model, VIVEPORT Subscription, which allows users to choose up to five VIVE titles for unlimited use per month with a low rate. At the end of 2018, VIVEPORT Subscription service experienced over 3 times growth in subscribers compared to 2017, thus becoming a key driver for VIVEPORT business growth.

To provide users with a great range of VR experiences, we've been working closely with VR content developers and publishers worldwide to expand VIVEPORT's variety and amount of content. By the end of 2018, more than 2000 titles have been published on VIVEPORT and support a variety of different types of VR devices. The content is more focused on supporting multiple languages to meet users' expectation.

In light of user demand for a wide range of content, we launched VIVEPORT Infinity, the first unlimited VR subscription service in April 2019. VIVEPORT Infinity members will gain unrestricted access to the service's library of over 600 apps. VIVEPORT Infinity will be available to VIVE and Oculus Rift owners. For compatible titles, VIVEPORT Infinity will also travel with members to any standalone headset built on VIVE's Wave platform. This hardware agnostic and cross-platform approach is bringing the service to a whole new category of VR devices while broadening a developer's reach and audience pool.

VIVE ORIGINALS

HTC VIVE ORIGINALS is one of the content brands of HTC VIVE, dedicated to the production of original contents, the expansion of native IPs, the exploration of VR films, and the development in cultural entertainment and arts industries. We actively foster creative teams for cross-domain contents, starting with the VIVE Reality Ecosystem and integrating virtual technology with humanity to reach out to the wider world.

Since 2017, HTC co-produced numerous VR films with various internationally famed directors. In 2018, the VR films were nominated and awarded in several international awards and presented in diverse countries. In 2018, HTC VIVE ORIGINALS also engaged in cross-border cooperation with Miwa Komatsu, a Japanese avant-garde artist, and produced the VR work "Pray." As such, the cooperation further underscored the powerful combination of VR and off-line installation art, and in turn, explored the commercial value of IP-driven arts.

With the advance and optimization of VR technology in 2019, HTC VIVE ORIGINALS introduced high-definition graphics, bringing in a brand-new viewing experience in movie entertainment. In 2019, HTC VIVE ORIGINALS and well-reputed French animation company Atlas V co-produced a VR animation "Gloomy Eyes," which was recognized through a number of nominations at respected film festivals in 2019. In addition, HTC VIVE ORIGINALS independently developed VR Theater Management System (TMS) to meet the broadcast requirements of film festivals. Through continuous overseas marketing, HTC VIVE ORIGINALS released and authorized VR contents of high quality all over the globe, boosting the VR pan-entertainment ecosystem and establishing a new stage for content creators.

HTC VIVE ORIGINALS also actively branched out external resources. In 2017, we strove to receive the governmental investment and built up the "Taiwan Virtual Media and Entertainment Base." We also continue receiving subsidy from the Ministry of Culture and are proud of our various achievements over the course of 2017: the completion of the VR music documentary of Eric Chou, the collection of traditional culture performed by Yang Li-hua, the initial construction of TMS theater system, and the first virtual reality idol show in America's Got Talent. In 2018, HTC VIVE ORIGINALS successfully raised funds for VR film "5x1" and continuously developed the foundation of the virtual media- entertainment industry.

VIVE Arts

VIVE Arts is a global art project designed to promote artistic creation and appreciation through the latest technology. VIVE Arts exemplifies the unity of technology, humanity, and imagination that forms the foundation and core values of the VIVE brand. Since 2016, HTC has been actively exploring the potentials of virtual reality in the creation, appreciation, education, and promotion of the arts. The establishment of VIVE Arts in 2017 not only provided artists with a brand new creative medium, and platform, but also opened a portal for humans to appreciate the humanities and arts without time-space limitations.

2018 was a fruitful year. In the first half of the year, VIVE Arts attended the world's preeminent contemporary art event, Art Basel International Art Fair's Hong Kong exhibition, presenting virtual reality artworks by leading artists Marina Abramović and Anish Kapoor and receiving wide coverage from international press including the Financial Times. In the second half of the year, VIVE Arts partnered with Musée d'Orsay and Musée de l'Orangerie in Paris to present VR experience Claude Monet: The Water Lily Obsession, receiving overwhelmingly positive responses. In addition, VIVE Arts partnered with the world's leading museums to introduce highly immersive artistic and educational content, including Italy's National Museum of the 21st Century Arts—MAXXI Museum, Russia's Tretyakov Gallery, The Netherlands' film archive—EYE Film Institute, as well as Mexico's National Autonomous University's art museum—Museo Universitario Arte Contemporáneo. VIVE Arts not only enables arts and cultural institutions around the world to reach a wider audience through innovative technology, enriching their curatorial content, but also brings audiences closer to the arts.

In March 2019, we launched the virtual reality experience T. Rex: Skeleton Crew at the American Museum of Natural History, one of the world's most visited museums. T. Rex: Skeleton Crew is the Museum's first multi-player, interactive VR experience, created in collaboration with the Museum based on its most iconic T. Rex skeleton. Allowing audiences to interact with each other in virtual reality while assembling the dinosaur's skeleton in collaboration, this project has an incredibly rich educational potential. This important exhibition will be open to the public for 17 months. At the end of March, as the official VR partner of the Art Basel Hong Kong for a second year, we brought the Asian debut of "To the Moon," the latest VR artwork created by the esteemed American avant-garde artist Laurie Anderson and Taiwan's new media artist Hsin-Chien Huang. The presentation was one of the biggest highlights of 2019 Art Basel Hong Kong and received major features on top-level international publications. VIVE Arts will continue to expand and deepen its partnerships with the world's top arts and cultural institutions, and bring more beautiful works to people.

VIVE X

VIVE X is an accelerator program that provides funding, mentorship and training programs, and partnership resources for developers and startups worldwide, with a vision to build the VR ecosystem. Currently, VIVE X operates in six major cities: Taipei, Beijing, Shenzhen, San Francisco, Tel Aviv, and London being the newest addition to the VIVE X program in 2018 with a focus on helping European developers.

Since 2016, VIVE X has helped startups success in business operation, technology, product, and funding. VIVE X stands out from other accelerators due to the fact that it has exclusive access to HTC VIVE internal support and resources. In 2018, VIVE X recruited 17 startups for its forth batch, making a total of 97 teams since the initial launch of VIVE X. To meet the rising demands for VR solution from enterprises, VIVE X has invested in teams that have innovative solutions to many of the traditional including education, simulation training, design tool, etc. These VR solutions improved business users' efficiency in operation and problems solving. On the other hand, VIVE X kept invested teams in consumer applications such as e-sports, travel to continuously advance users' experience.

Other than industry expertise, VIVE X has become well-known for its Demo Days held at the end of each batch. Each year Demo Days are held in Taipei, Shenzhen and San Francisco, it has become one of the most important events in the VR and AR industry and attracts many global investors and companies. Demo Days gives the teams that VIVE X has invested in and trained a chance to demonstrate their applications or solutions to investors and industry leaders.

VIVE X will continuously strengthen and enhance while enabling effective growth of the ecosystem and promote VR to each industry.

VIVELAND

VIVELAND is a virtual reality arcade in Taipei created by HTC. It was built in October 2016 with various types of VR experiences, such as multiplayer shooting, VR e-sports, horror haunted house, Japanese IP experiences, car racing simulators, sports, and 4D seated experiences. VIVELAND has gained invaluable VR arcade operation experience to apply to other locations. We opened the largest VR multi-sensory exhibition park of overall size in Taiwan Kaohsiung in October 2018. A 26 square-meter park was born out of a unique collaboration with the Kaohsiung City Government. In addition, VIVELAND made the push into an overseas market with Hong Kong partnership EASCO for the franchise authorized cooperation. We successfully landed in Hong Kong on January 18, 2019, becoming the first VIVELAND overseas. We continue to cooperate with content developers around the world to create content most appropriate for arcade operation. All of the content in VIVELAND has proven successful and profitable. Moreover, VIVEPORT Aracde signed a memorandum with the Korean Illusion Inc. in December 2018 and officially introduced it to the Korean market.

Furthermore, VIVELAND, as a total solution provider, successfully shipped the concept to Japan, China, and Hong Kong. Looking ahead, VIVELAND will expand beyond Asia and formally enter the Middle East and Southeast Asia in 2019. We look forward to bringing the VR arcade concept to a wider audience around the world.

Healthcare

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

Medical Virtual Reality Products

HTC DeepQ Healthcare is a medical VR platform to integrate and promote technologies and solutions to developers, medical schools, and hospitals in Asia-Pacific region. Currently, there are three medical VR products in development:

Surgical Theater, VIVEPAPER, and 3D Organon. Surgical Theater combines various DICOM medical imaging technology such as MRI, CT, DTI, MRA, and CTA to create a three-dimensional model. In addition, the product can fully recreate stereoscopic details with the HTC VIVE. Surgical Theater allows surgeons to quickly develop surgical training plans and allow residents to observe and practice repeatedly, vastly improving learning efficiency and effectiveness. Moreover, HTC DeepQ Healthcare has received TFDA Certification in Taiwan and collaborated with various medical centers to apply VR products in clinical operations.

VIVEPAPER is the world's first VR augmented reality reading system. VIVEPAPER supports media content including images, videos, music, and 3D models. With no need for controllers, users can experience immersive reading through hand gestures and eye positioning. VIVEPAPER can be applied to a variety of vertical market applications, including education, travel and training. The editor used to create VIVEPAPER is also unique in its key features: graphical interface, real-time review, one-click upload to bookstore, and Windows and Mac operating system compatibility.

Lastly, 3D Organon is the world's first fully-featured virtual reality anatomy atlas. Users can learn human anatomy with more than 4,000 realistic anatomical models and structures. Combined with VR stereoscopic image rendering, the 3D anatomic models add important cognitive input for understanding the skeletal, muscle, blood vessels, organs, and other anatomical structures and examine structures from all angles. The atlas not only supports VR platform, but also supports various operating systems including Windows PC, Mac OS, Android and Apple iOS.

Medical Virtual Reality Business Results

HTC DeepQ Healthcare partnered with the National Defense Medical Center and established innovative anatomy education laboratory. The partnership includes the application development of VR and AI anatomy educational content application and an innovative medical internship training program.

In May 2018, HTC DeepQ Healthcare collaborated with Tri-service General Hospital to establish the first VR smart surgery clinic in Asia. Along with 3D printing center, the clinic serves patients with the need to repair and regenerate craniofacial bone through controllers, motion detectors, Computed Tomography (CT) scans, and magnetic resonance imaging (MRI), among other medical imaging information.

HTC DeepQ Healthcare also collaborated with Taipei Medical University to build the largest VR anatomy lab and equipped with 10 sets of VIVE Pro headsets and VR anatomy teaching application. The cutting-edge VR anatomy lab not only supports aspiring medical students learn and train by themselves, but also allows for multiple users to join a virtual space and experience a human anatomy demonstration by a lecturer. This innovation is transforming a course that previously could only be taught physically in person, enabling students to employ the latest VR technology to better prepare themselves in mastering the multi-dimensional intricacies of the human body. With the ability to support up to 300 people in the same virtual space, these tools allow users to dismantle the human body into over 4,000 detailed structural components for close observation.

In December 2018, HTC DeepQ Healthcare partnered with Central Taiwan University of Science and Technology to establish Taiwan's first VR Self-Learning Center. Combining medical education with VR, the center focuses on proactive self-education, rather than passive learning. The VR Self-Learning Center is equipped with HTC VR devices and various VR medical education applications. From VR anatomy to the medical VR content development editor "VIVEPAPER," the center allows students to learn independently and create their own interactive medical VR learning materials in order to advance the VR medical education.

Established in January 2019, HTC DeepQ Healthcare collaborated with Taipei Municipal Wan Fang Hospital to build the first multiuser VR patent education room using VIVE Focus. Using VIVE Focus devices installed with the VR human patient education applications, surgeons and families can join a shared VR world in which surgeons explain surgical procedures, educate patients, and share in the decision making. With this cutting-edge VR technology, doctors can improve care for patients. In the future, Wan Fang Hospital will also integrate the VR education platform with the Health Information System (HIS) system of the hospital's patient educational review system.

Blockchain

HTC EXODUS 1 has received great applause and respect from the blockchain community since the early access announcement in October 2018. Built on top of the flagship of HTC, EXODUS 1 is the world's first native web 3.0 blockchain phone with the HTC developed hardware wallet, Zion, providing users a secure and user-friendly private vault on the blockchain. Using the Trusted Execution Environment (TEE), EXODUS 1 provides an effective and military-grade security for users' cryptocurrencies and assets. Also, the industry first Social Key Recovery extends the protection and convenience of recovery users' keys.

Rebuilding trust and security, one phone at a time. Under the current structure, most of our private data, our preferences and even our assets are being controlled by large corporations. These are all part of our assets but they are being held and even made profit from by these large corporations. EXODUS believes that empowering the data back to the user is one of the core values of blockchain, decentralization. Other than insisting on not collecting user data, EXODUS also works with partners with the same beliefs to provide more services while keeping users' data secure.

First announced at MWC Barcelona 2019, the collaboration with Opera is a great step towards a friendlier experience for general users to explore the blockchain applications. We hope to continue to provide easy and secure services for everyone to join the blockchain community.

With the support of HTC, Proof of Capital, a $50M blockchain-focused venture capital fund was launched with a mission to build an internet ecosystem that belongs to everyone and to usher in worldwide adoption of blockchain technology in April 2019. Proof of Capital will invest and partner with big thinkers and exceptional founders who are building market-transforming companies focused on fintech (payment, remittance, custody, and wallet), infrastructure (security, identity), and hardware and consumer layers of the blockchain ecosystem.

Industry Overview

Smartphones

HTC designs and manufactures personal computing devices in various form factors, with smartphones being the primary device to the market.

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

Figure 1: Personal computing devices evolving over time

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

Figure 2: Industry relationship chart:

Virtual Reality

After the launch of HTC VIVE in February 2016, room-scale VR has become the new benchmark of virtual reality products. Soon afterwards, Oculus introduced a new Rift exclusive sensing device, while the Sony PS VR requires to be equipped with a PlayStation® Camera before it can track the movement. The device requirements are to track users' actions more accurately when they are experiencing virtual reality. Enabling users to enjoy industry-grade virtual reality products at a friendly price is the key to the virtual reality boom in 2016. That vendors introduced virtual reality products one after another made 2016 known as "year one of virtual reality".

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

The first half of 2017 saw a trend of slowed growth in the virtual reality hardware market. HTC VIVE, Oculus Rift and Sony PS VR adjusted their prices in the third quarter, increasing their popularity. The market showed a trend of numerous vendors vying for the same consumers changing to only three major players (HTC VIVE, Oculus Rift, Sony PS VR) sharing the high end consumer market. On the other hand, the software market was dynamic by comparison. When the hardware for running virtual reality were established in 2016, numerous studios creating innovative VR content popped up to greatly enhance the VR content, applications and development tools.

To speed up market growth, vendors started putting resources into developing standalone virtual reality devices such as Google Daydream, Oculus Go were released in early 2018, and VIVE Focus, which was announced at the end of 2017. The main consumer applications of standalone virtual reality devices are mostly in the fields of social exchanges, light videos, and network services, therefore possessing a dedicated content platform is of great importance. VIVEPORT and VIVE Wave are such content platforms, and enable greater outreach to content service partners as well as enhancing consumer product loyalty.

Looking ahead, the overall VR industry will meet two major trends in 2019: Standalone HMD mass market acceptance and 5G VR. 5G is the general direction of 2019. The basic network foundation for 5G will be laid down during second half of the year. 5G is expected to be used extensively to enable new services and new business models. With high coverage expected within two to three years, 5G will give birth to the so-called Cloud VR. Cloud VR will change the way everyone uses VR. Cloud VR will become increasingly more popular in the next one to two years, as it will reduce the cost of entry of VR for everyone, and allow for even more lightweight, portable, and cheaper hardware device designs.

Progress in Research & Development

5G

5G is the next generation of wireless access technology, promising expanded capacity, higher data rates, lower latency, higher reliability, and lower power consumption than 4G. These capabilities open up opportunities for new use cases like connected cars, wireless broadband, fixed wireless and more. The most important market transition over the next few years will be the introduction of 5G whereas 5G services will be the focus of global mobile communication industry in the coming year.

Working together with U.S. telecommunications giant Sprint, HTC announced the powerful 5G smart hub in November 2018. HTC announced the partnership with Telstra in Australia in February 2019 and the recently added European carriers: Three in UK, Deutsche Telekom in Germany, Sunrise in Switzerland, and Elisa in Finland. Designed for ease of use in both home and office environment, HTC 5G Hub enables smooth 4K video streaming, low-latency gaming, and 5G mobile hotspot features for up to 20 users. HTC 5G Hus is equipped with a newly designed active cooling system to solve the 5G power consumption and heat problems. Built in with a 7,660mAh battery, the HTC 5G Hub is made ready to support a wide range of on-the-go duties to bring the perfect solution for the coming 5G era.

As a home media center, the HTC 5G Hub uses next-gen 5G speeds to stream 4K videos to a second screen and deliver crisp, clear content. It can also replace a Wi-Fi router and remove unnecessary cables with an easy to use plug-and-play setup. Intuitive voice command and remote control features make it quick and easy to manage entertainment and productivity needs. In addition, HTC 5G Hub is created in anticipation of the advancement in edge computing the developing 5G infrastructure. In the future, users will be able to stream VR content from the cloud to VIVE headsets via the HTC 5G Hub to enjoy a mobile, high-end VR experience in real time.

Smartphones

Since its inception, HTC has invested consistently to consolidate in-house R&D capabilities. Frequently, HTC products are trailblazers, earning a long line of "firsts" that includes the world's first Windows Mobile and Android smartphones, first dual-mode GSM/WiMAX phone, first 3G/4G Android phone, and first LTE Android phone. HTC has earned its pioneering reputation through innovation and an exceptional understanding of industry and consumer trends. In 2011, with markets shifting up to 4G high-speed mobile networks, HTC launched HTC Thunderbolt and HTC Titan II - the world's first LTE Android and LTE Windows Phone smartphones. Milestones like these further highlight HTC's leadership in critical technologies.

HTC unveiled the HTC One family at the Mobile World Congress 2012. This addition to HTC's portfolio further streamlined the user experience with unparalleled design aesthetics, with an amazing camera and authentic sound. The HTC One was the only smartphone in its class with the all-new ImageSense™ to enhance image and video capture functions. In order to further satisfy the different needs of the market, HTC in 2012 released multiple smartphones that combined performance and ergonomic design, such as the release of the first 4G LTE Windows Phone, named TITAN II. In addition, HTC also featured the critically acclaimed entry-level Desire series smartphones. In the high-end space, HTC released 5-inch full HD smartphones, such as the DROID DNA in partnership with US carrier Verizon, the HTC J Butterfly in cooperation with Japanese carrier KDDI, and the HTC Butterfly in China and Taiwan. Together with Microsoft, HTC released the Windows 8X and 8S. HTC continues to give consumers more choice by partnering with global technology leaders.

At a product launch held in London and New York in February of 2013, HTC unveiled the new flagship smartphone HTC One. The device disrupted the traditional mobile experience and featured a seamless metal unibody design. The HTC One came with the latest HTC Sense that includes HTC BlinkFeed™, which gives the user a real-time dynamic homepage to access global and personal social networks news. Zoe™ shooting mode used HTC UltraPixel™-powered camera to bring image galleries to life, and redefined how people take pictures, play and share precious moments. In addition, HTC BoomSound™ provides the industry's best mobile audio experience, utilizing front-facing speakers and dual dynamic microphones. Add to that a full HD screen, and users can immerse themselves in their music, movies, and games. In addition, HTC Sense TV™ allows for the control of most TVs, set-top boxes, and receivers by transforming the smartphone into a remote control. The HTC One M7 won the Best Smartphone of the Year at the 2014 MWC hosted in February by the GSMA as well as the iF Gold Design Award in Germany, among many other industry and media awards. These awards affirmed once more that design and innovation are a key part of HTC's DNA.

In March 2014, the latest flagship model HTC One M8 was released in London and New York. HTC One M8 elevated craftsmanship to a whole new level. The new one-piece metal casing covers 90% of the device, presenting an immense challenge to antenna design. After extensive design and calibration, HTC One M8 was the only phone in the world with an all-metal unibody that has passed all carriers testing and sold simultaneously through 230 carriers worldwide. The ultra-thin HTC One M8 with its curved edges and brushed metal finish offers the ultimate grip and visual aesthetics. The new generation of HTC BoomSound™ increased 3D sound performance by a further 25%, and the proprietary Duo Camera provided super-fast focusing (300ms) to capture every exciting moment of the user. The UFocus™

function can be used to alter the focus of the images while all creative photo backgrounds and Seasons animations offer the user an incomparable photo experience. The new Zoe™ integrates all its functions even more intuitively and seamlessly into the snapshot function. Combining Motion Launch™ gestures with the new Sense 6 and Smart Sensor Hub, HTC One M8 is able to recognize gestures and touch control tracks to intelligently launch corresponding functions or apps. The HTC One M8 incorporated all of these functions without compromising the battery life. More demanding conditions and specifications extend the extreme power-saving function increases the standby time to two weeks. With all of these smart functions, the HTC One M8 undoubtedly is the pioneer and undisputed leader for the next generation of smartphone applications and user experience.

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

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

The HTC U11 was released in May of 2017 and comes with HTC Edge Sense, ushering in a new era of mobile phone interactions. With a simple squeeze, HTC Edge Sense lets users easily engage with their phone in an unprecedented yet intuitive way, helping consumers more naturally enjoy the things they love like launching the camera, taking photos, launching an application, instant recording, taking a screenshot, Google Assistant, Voice to Text and so on. Functions that used to demand several steps can be completed by a single squeeze now. The HTC U11 uses an astonishing 3D Liquid Glass Surface that is finely crafted using Optical Spectral Hybrid Deposition. By layering highly-refractive precious minerals across the phone's back cover, we've created stunningly vivid new colors that transform light with every movement users make. It is not only stylish and easy to hold with dust-proof and waterproof capabilities. The primary camera (12MP) of the all-new HTC UltraPixel 3 has the UltraSpeed Autofocus function that gets a high score of 90 on DxOMark benchmarking and ranks among the top in the world of smartphone cameras. The HTC USonic personalized sound is now integrated with active noise cancellation that can lower ambient disruptions and noises to bring users the purest music. Active noise cancellation can continuously monitor ambient sound levels and make quick adjustments on newly emerged noises and disruptions. HTC USonic and active noise cancellation will operate in parallel automatically, letting users focus on music, videos or games any time. The HTC BoomSound Hi-Fi edition is also fully upgraded. We have improved the speaker design to allow more loudness and have better dynamic range audio. The tweeter now offers an acoustic chamber that allows the highs and mids to sound richer. The woofer sports a new speaker and improved magnetic circuit design for louder, clearer and appreciably deeper bass tones to give users a natural soundscape with exceptional audio detail. The HTC U11 comes with Qualcomm® Snapdragon™ 835 Mobile Platform iv, which is the first 10 nm mobile processor. Consumers get 25% faster graphics than the HTC 10, with 35% or 3 hours more video playback, 30% or 8 hours more music playback and 43% or 3.5 hours longer web browsing time via LTE network.

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

Launched in May 2018, HTC U12+ contains bran-new translucent liquid glass design, along with water-and-dust resistance IP38. Its innovative 3D glass and diamond-cutting technology creates an extremely narrow frame, which is reduced by 2mm in contrast to that of HTC U11. In addition, the brilliant interactive squeeze motion of creative Edge Sense 2 helps act easily with one hand. In terms of camera design, it highlights both front and rear dual cameras. Front dual cameras support depth sensor, face ID unlocking and portrait bokeh effect. Rear dual cameras harness 2x optical zoom as well as 10x digital zoom, PDAF (Phase Detection Auto Focus) & LASER AF (II), and OIS (Optical Image Stabilization) & EIS (Electronic Image Stabilization). With all these features, it can shot stunningly sharp images and capture phenomenal details even when the subject is in motion. HTC U12+ won a score of 103 by DxOMark, which is the highest among other smartphones with a dual-camera system. 4K Video Recording at 60 FPS is included, attached with cutting-edge "Hearing Focus II" that is composed of sound microphone array and algorithm. The intellectual sound-picking range concentrates with the adjusting focuses while shooting videos. Its processor carries the latest Qualcomm® Snapdragon™ 845 mobile platform and accompanies the optimal display and processing speed, as well as the dual LTE connection ability.

Virtual Reality

HTC VIVE is set to provide the most immersive virtual reality experiences to unleash human imagination from the limitations of reality. VIVE will change how we work, learn, play, communicate, entertained and believe. HTC has put considerable resources into building a thriving development environment. We are expanding the VR hardware and platform ecosystem to enable the whole industry to grow through the creation of compelling content and rich experiences to also further our commitment to rapidly iterate and refine the VR market for all consumers, developers and businesses. Since the first debut of HTC VIVE, partnered with Valve® in 2015, we have continued to introduce innovative products such as VIVE Pro, VIVE Wireless Adaptor, VIVE Pro Eye and VIVE Cosmos to bring virtual reality users more premium and immersive experiences. We launched VIVEPORT, a global platform and app store with the world's first VR subscription model to focus on the most innovative and diverse immersive experience for global virtual reality content developers. VIVE Focus is the revolutionary standalone VR device which delivers a premium VR experience with unparalleled convenience and exceptional comfort. VIVE Wave VR open platform is aimed at bringing together the highly fragmented mobile VR market to build and expand the global virtual reality ecosystem.

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

At CES 2016, HTC launched its second developer edition, HTC VIVE Pre, which has revolutionary development in its appearance and capabilities and has taken a vital step further by taking the VR industry into the consumer market with its already matured technology. With a sleeker design and a brand-new headstrap, HTC VIVE Pre provides greater stability and balance; the new system renders brighter displays and more subtle images to provide a deeper sense of immersion. Redesigned from an angled shape of the first developer version to a round and smooth style, HTC VIVE Pre handheld controller looks more futuristic and provides a more ergonomic experience with a specially designed handle and selected material. It lasts for up to 4 hours in a single charge with rechargeable lithium batteries. Furthermore, the positional tracking technology of HTC VIVE has been improved to provide a more stable tracking system that gives users the abilities to walk around and navigate naturally in the virtual world.

At VRLA 2016, the world's largest virtual reality expo, VIVE launched VIVEPORT™, the destination for VR content and experiences. VIVEPORT features a wide range of VR experiences across education, design, art, social, video, music, sports, health, fashion, travel, news, shopping, creativity tools, and more. Together with the global community of content creators and developers, VIVEPORT provides all customers with a unique and fast-growing selection of apps and experiences. In addition, VIVEPORT continues to roll out new platform features supporting content creation, distribution, and customer engagement.

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

At the VIVE Developer Conference 2017, HTC VIVE unveiled VIVE Focus, the standalone VR headset, and VIVE Wave VR open platform. VIVE Focus is the commercial standalone device to deliver inside-out 6-degree-of-freedom tracking (6DoF) which VIVE calls "world-scale". Without the need to be attached to a PC or a phone, the VIVE Focus provides unlimited freedom of mobility while reducing the total cost for users to own a premium VR device. Its high-resolution AMOLED screen realizes the best possible VR experience, with low latency and unmatched clarity. The VIVE Focus is powered by the advanced features of the Qualcomm® Snapdragon™ 835 VR platform. VIVE WAVE™, a VR open platform and toolset that will open up the path to easy mobile VR content development and high-performance device optimization for third-party partners. VIVE Wave is a clear step forward in bringing together the highly fragmented mobile VR market.

In January 2018, HTC announced the hardware upgrades that deliver premium VR experiences to consumers and enterprises with the introduction of VIVE Pro and VIVE Wireless Adaptor. VIVE Pro is a new HMD upgrade from VIVE, built for VR enthusiasts and enterprise users who want the best display and audio for their VR experiences. VIVE Pro includes dual-OLED displays for a crisp picture resolution of 2880 x 1660 combined, a 78% increase in resolution over the HTC VIVE HMD. This premium resolution enhances immersion for VR enthusiasts, and the improved clarity means text, graphics and overall experience all come into sharper view. VIVE Pro also features integrated, high-performance headphones with a built-in amplifier to offer a heightened sense of presence and an overall richer sound. VIVE Pro's new headstrap was built with enhanced ergonomics and comfort, including a sizing dial for a more balanced headset that decreases weight on the front of the headset. Additional improvements include dual microphones with active noise cancellation and dual front-facing cameras designed to empower developer creativity. VIVE Wireless Adaptor is the first to market with a truly wireless VR headset integration for both VIVE and VIVE Pro. The VIVE Wireless Adaptor offers a premium VR wireless experience that operates in the interference-free 60Ghz band, which means lower latency and better performance.

HTC VIVE launched two new devices, VIVE Pro Eye and VIVE Cosmos, at CES 2019. VIVE Pro, built to meet the needs of the professional VR user, just got even better with integrated eye tracking on the new VIVE Pro Eye—giving users new levels of accessibility, including gaze-oriented menu navigation and removing the need for controllers. With the inclusion of eye tracking, the new VIVE Pro Eye will allow businesses and developers to gather more data about their training environments, help optimize computer and VR performance, and offer product design and research groups unprecedented levels of feedback. VIVE Cosmos is the newest VR headset from VIVE, offering absolute comfort and ease of set-up and use. With no external base stations required, VIVE Cosmos maximizes flexibility of usage space. VIVE Cosmos offers our sharpest screens yet. The new pixel-packed displays with minimal screen-door effect deliver crystal-clear graphics bringing every detail in VR alive. With the all-new wide and accurate tracking, gesture controls, and a six-degree-of-freedom (6DoF) headset and controller setup, VIVE Cosmos promises a deeply engaging VR experience right out of the box. VIVE Cosmos' innovative flip-up design, user can jump between reality and virtual reality in seconds — all without disrupting your immersive journey. Besides, with a soft texture and light, breathable materials, the feel of VIVE Cosmos' crown is something everyone can get behind. Cosmos will be the first VIVE headset to feature the "VIVE Reality System," an entirely new design experience for VR.

In February 2019, HTC VIVE announced VIVE Focus Plus for premium standalone VR experiences. The upgraded six degrees of freedom (6DoF) VIVE Focus headset to incorporate dual 6DoF controllers can precisely detect hand movement to bring improved graphics, the ultimate in ergonomic comfort, and more immersive VR experiences. VIVE Focus Plus offers two ultrasonic 6DoF controllers featuring an analog trigger that gives users the ability to control objects or interactions with pressure-sensitive input, making experiences truly immersive. VIVE Focus Plus has new Fresnel lenses which offer a sharper visual to reduce any screen door effect, and the new lenses create a crisper, more true-to-life visual for users to truly immerse the headset use.

Healthcare

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

In October 2016, HTC DeepQ Healthcare launched a novel augmented reality reading system called VIVEPAPER. VIVEPAPER renders virtual multimedia content on a piece of physical paper, specifically card stock. The paper then appears as a multimedia book when viewed through the display of a head-mount device (HMD). HTC DeepQ Healthcare has collaborated with several medical universities and hospitals to develop surgical training, long-term care, nursing technique training, health education, and first aid medical content through VIVEPAPER into rich immersive and interactive VR media materials, greatly enhancing learning interest and effect. In the future, HTC DeepQ Healthcare will work with more hospitals and schools to develop related medical contents for breaking through the bottleneck of traditional medical education.

In September 2017, HTC DeepQ Healthcare cooperated with the Center for Disease Control in Taiwan to develop the "LINE @ chatbot - Disease Manager." The chatbot was upgraded to Version 2.0 to extend counseling services in 2018. In addition to the infectious diseases that consumers often suffer at home, users can also consult the Disease Manager before going abroad to learn about local epidemics and related epidemic prevention information, such as the need for vaccinations or preventive drugs before going abroad. In addition, when the users sets the trip dates, the Disease Manager will take the initiative to remind the user of epidemic prevention precautions and protective measures within 45 days of going abroad, and will notify them of take self-health management tips after returning from their trip.

In 2017, HTC DeepQ Healthcare has cooperated with the Taipei Municipal Wanfang Hospital to launch Taiwan's first artificial intelligence medical services chat robot called "Wan Xiaofang." Wan Xiaofang was upgraded in 2018 to include a comprehensive series of medical care application from AI-assisted registration, outpatient notes, hematology reports, and medication management.

In May 2018, HTC DeepQ Healthcare launched the “DeepQ AI Platform.” The DeepQ AI Platform dramatically reduces the learning thresholds and the cost of AI model training through an optimized training environment, built-in multiple AI models, fully automated parameter adjustments, and a simple user interface. It is different from the existing AI training platforms and services available on the market, users of DeepQ AI Platform can quickly convert their own labeled data into the deployable AI model training without writing and designing a deep learning program.

In January 2019, HTC DeepQ Healthcare cooperated with Changhua Christian Hospital to launch the “Changhua Christian Hospital Line Bot”. Changhua Christian Hospital Line Bot is the first AI and blockchain medical care chat robot across 10 hospitals in Taiwan that strengthens information security across the hospital medical care network through medical blockchain technology. With the power of AI department consultation, pre-examination notes, and post-consultation personal medical education combined with medical blockchain information security, Changhua Christian Hospital Line Bot is creating a hospital care solution to comprehensively upgrade the quality of medical care experiences before, during, and after medical treatment.

Blockchain

HTC’s Project EXODUS is a smartphone solution that powers the decentralized web. For more than 20 years, HTC has created foundational technology for worldwide mobile and virtual reality technology. Through EXODUS, HTC is investing in the development and implementation of blockchain technology that will usher in a new area of secure data storage and transactions and take blockchain technology mobile for the first time.

Launched in October 2018, HTC EXODUS 1 provides the premium performance and quality of design expected from HTC’s flagship device lineup and combines it with the blockchain technology and software. The HTC EXODUS 1 contains a secure enclave, a locked area on the device that is protected from the Android OS. This secure enclave will hold the keys to your crypto, whether that is currencies or non-fungible tokens (NFTs) or in the very near future, all your digital data. HTC EXODUS 1 is also the world’s first native web 3.0 blockchain mobile device to empower users to own their own data.

HTC EXODUS launched “Zion”, the all-in-one wallet on the blockchain in December 2018. Zion helps fulfill EXODUS’ promise to bring about a secure, decentralized internet. With multiple functions including DAPPs, payment, collectibles, as well as exchange and access to a wider blockchain marketplace in our future roadmap, the Zion wallet operates through highly-secure Trusted Executive Environment (TEE) technologies. When authorizing transactions, Zion Trusted UI creates a safe zone, guarding against the possibility of data-theft from malware running on the device. Unique Social Key Recovery function divide recovery phrase into 3-5 parts, allowing users to send to designated friends and family for safekeeping and help recovery when needed.

R&D Expenditures in Recent Years

Unit: NT$ millions

	2017	2018	2019 Q1
Worldwide R&D Expenditures	10,421	7,070	1,455
Percentage of Worldwide Revenue	17%	30%	50%

Business Development

In the smartphone business, HTC remains committed to innovation and will continue our investment into the future of smartphone core technologies such as the development of our industry-leading camera, HTC BoomSound, USonic, and our unique Edge Sense interface. Looking ahead to the long-term future, we will continue to lead the charge with our 5G leading technology and accelerate forward with our business advantage momentum from 2018. HTC will continue enlarging 5G impact and focusing on 5G applications. Combining the power of 5G smartphones and 5G hubs with cloud computing to break through the limitations of traditional computing on edge devices, we stand ready to usher in a new era of communication technology to provide new benefits to our users and exceed their expectations with the best services and experiences.

In virtual reality, we will continue to lead the virtual reality industry into the future, invest in, and develop more virtual reality experiences, software applications, and deliver more industry-leading hardware solutions. With this pledge to innovate and enhance our humanity’s digital future, we will apply virtual reality into more fields of industry such as health care, education, and learning, VR for Impact programs, and more. To change the world and enhance humanity’s well-being in the long run, we will continue to grow and develop the virtual reality products and services ecosystem, integrate our 5G technologies expertise, and strive to redefine cloud computing and artificial intelligence, to maximize the benefits of VR and AR. HTC is uniquely positioned to create and deliver a completely new domain of convergence technology and pioneer a new era for people and machines.

Markets and Sales Overview

Market Analysis

Market Analysis

Smartphones

HTC started with developing and manufacturing customized PDA mobile phones which carried Microsoft software. Since proceeding to design and market Android smartphones under the brand name "HTC", HTC has always played a significant role in the smartphone industry.

Till now, smartphones have evolved for more than ten years, and have for sure become the most important single product in the world. They are also the most indispensable personal product in the daily lives of modern people. However, up to the beginning of 2019, the market of smartphones is about to be saturated and step into maturity. The growth for the shipped quantity this year has slowed down. Almost all the features and specifications regarding both hardware and software have been complete. Unless new powerful features come out, consumers' drive to get new smartphones is relatively weak. Based on various analyses, the new demand and new energy for overall smartphone industry may emerge till 2020, after the 5G technology pumps into the market, 5G smartphones will be the highlight during the next wave of replacing smartphones.

5G is the next generation of wireless access technology, promising expanded capacity, higher data rates, lower latency, higher reliability, and lower power consumption than 4G. These capabilities open up opportunities for new use cases like connected cars, wireless broadband/fixed wireless etc. The most important market transition over the next few years is the introduction of 5G and 5G service will be the key observation point for the development of the global communications industry within the following year.

Key operators around the world will carry out 5G commercial operation plans one after another. Among them, the three main telecom companies in South Korea announced in the beginning of December 2018 that they would begin to transmit 5G signals and offer 5G commercial services. Their target markets include industries and commercial B2B clients. South Korea has become the first country in the world that offers 5G commercial communications. American Telecommunications Company AT&T, however, introduced 5G commercial services in twelve US cities in the end of December 2018. Furthermore, in Japan, the UK, Taiwan and China, it will be in 2019 or 2020 that 5G commercial operations be carried out.

In terms of the 5G terminals, mobile routers and household routers were launched in the end of 2018. Moreover, 5G smartphones will hit the market in the first half of 2019. Not until the majority of worldwide telecom companies run the business of 5G Internet in 2020 will the growth of 5G smartphone sales boost.

At the turning point of the brand-new technology generation, smartphones are still play an essential part in our lives. HTC's intentions from the beginning still hold strong and, in the meantime, we will continue preparing for the 5G era. Just as how HTC led the evolution of 3G and 4G communications technology, we will build up the 5G ecosystem and introduce products for each consumer class with regards to the changes in market and demands.

Virtual Reality

Virtual Reality has opened up a new field of generational industry management, giving the industry and consumers a new way of interaction. HTC expects to bring the most immersive premium VR experience to all consumers. HTC VIVE first started shipping in April 2016 and received unprecedented media and consumer acclaim. In 2017, HTC continued to focus on technological innovation and stable growth in this nascent industry, and explored new ways to develop the virtual reality industry ecosystem. VIVE Pro was revealed in the first half of 2018. A full headset upgrade with greatly enhanced resolution and built-in audio as well as improved design, VIVE Pro provides the best display and audio for VR experience.

After years of promoting virtual reality, there is continued and stable growth for our devices. Yet there are still many obstacles to be overcome before virtual reality becomes mainstream. Among them, the most critical factor is that VR at present remains a niche product, with pricing less of a consideration than the amount of content and expanded applications. From the perspective of content developers, there are currently too few people interested in VR, and the hardware is fragmented by different specs, so too few resources have been diverted to developing killer content. However, this started to change in later 2017, as so-called AAA studios started releasing their famous PC games in VR format, which will help to develop the content market.

In contrast to smartphones, virtual reality products do not have inelastic demand. Vendors need to create demand in order to drive subsequent business development. In December 2016, six major virtual reality vendors (HTC, Sony, Google, Facebook, Acer, and Samsung) announced the establishment of the Global Virtual Reality Association (GVRA) with an aim to harmonize standards and solve pain-points in the virtual reality device market. The increasing stability of product quality should increase the potential user base, which in turn will incentivize developers to put more attention on creating VR content.

To speed up market growth, vendors started putting resources into developing standalone virtual reality devices such as Google Daydream, Oculus Go were released in early 2018. The main consumer applications of standalone virtual reality devices are mostly in the fields of social exchanges, light videos, and network services, therefore possessing a dedicated content platform is of great importance. VIVEPORT and VIVE Wave are such content platforms, and enable greater outreach to content service partners as well as enhancing consumer product loyalty.

Product Marketing

5G

5G is the next generation of wireless access technology, promising expanded capacity, higher data rates, lower latency, higher reliability and lower power consumption than 4G. These capabilities open up opportunities for new use cases like connected cars, wireless broadband, fixed wireless and more. The most important market transition over the next few years is the introduction of 5G and 5G services will be the focus of global mobile communication industry in the coming year.

Working together with U.S. telecommunications giant Sprint, HTC announced the powerful 5G smart hub in November 2018. HTC announced the partnership with Telstra in Australia in February 2019 and the recently added European carriers: Three in UK, Deutsche Telekom in Germany, Sunrise in Switzerland, and Elisa in Finland. Designed for ease of use in both home and office environment, HTC 5G Hub enables smooth 4K video streaming, low-latency gaming, and 5G mobile hotspot features for up to 20 users. At GTC 2019, HTC joined NVIDIA's GeForce Now Alliance as a partner to drive the future of both cloud gaming and cloud VR technologies, powered by 5G. The HTC 5G Hub is made ready to support a wide range of on-the-go duties to bring the perfect solution for the coming 5G era.

Smartphones

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

In 2018, we were determined to continue the goal of producing innovative products to differentiate our brand among competitors. In the face of the changes in telecom charges under overall environments, HTC still retains the beliefs in continuous innovation and adherence to excellence, enabling everyone to enjoy a brilliant life. With that sense of mission, HTC introduced a series of innovative products and marketing campaigns in 2018, ranged from mid-range to high-end U series to satisfy different consumer needs.

In March 2018, a music video featuring Mayday, HTC's brand ambassador, was released, telling stories of how people pursue their dreams against all challenges in life. Much like HTC, despite the challenges occurred in the past 20 years, we continued to embrace our brand spirit of "Pursuit of Brilliance" and develop innovative products to light up the world. As consumers expressed their support for the touching message, we continued to deepen our brand association with the public.

In May 2018, we introduced the latest flagship smartphone model HTC U12+. HTC U12+ obtains the highest screen-to-body ratio. HTC U12+ and HTC U product line are the only "Made in Taiwan" flagship smartphones around the world. Above all, the product echoes our twenty-year R&D achievements and design DNAs at HTC. It bears translucent liquid glass resembling world-class craftsmanship and delivers HTC BoomSound™ technology with dual stereo speakers. It also features a pioneering Pressure Sensitive Button, intuitively-operated Edge Sense, and intellectually customized sound effect – HTC USonic- which possesses original sonar-resembling technology. With our nonstop innovation, we created a better experience while using smartphones, display unconquerable functionalities, and exceptional design to bring about infinite possible applications for human-and-machine interaction interfaces. HTC U12+ carries the highest-rated four cameras and extols the benefits of our dual-camera concept. In terms of camera imaging technology, HTC U12+ ranked in the lead with the highest score of 103 by DxOMark and consequently received overwhelmingly positive reviews in the market. It not only displays professional technology resembling single-lens imaging, but also demonstrates our engineering ability to adjust the lights of photos and tone sharpness.

In July 2018, HTC announced that Mayday would be the brand representatives in Greater China Region, and at the same time, introduced the "Mayday Limited Edition of HTC U12+." The limited edition adopts the Mayday fans' familiar black color, along with the design of liquid glass, revealing vigorous but elegant spirit. On the smartphone body prints the bronze symbolic sign, HTC x Mayday. The print stands for the glory shared with each other and represents the progressive spirit of Mayday and HTC to keep moving forward. The single heart-shaped leaf on the sign symbolizes the same dream possessed by Mayday and HTC, in both parties hope to transmit positive energy to every consumer and bring brilliance to their lives.

With regards to our mid-range product portfolios, we have launched comprehensive products rarely seen in market, including the HTC U12 life. This product is among the few bolstering dual cameras, 4K videos, and supporting VoLTE, VoWIFI, 3CA, and double 4A services around Taiwan. Furthermore, we presented HTC U11 EYEs, HTC U12 life, HTC Desire 12 and HTC Desire 12+ with various price levels to meet the different demands of consumers. Overall, we offer diverse options for Telecom rates and products to consumers in response to changes in all kinds of environments.

In addition to continuous innovation, we have also taken part in a number of international and domestic events. For example, in November 2018, the 10th IESF Esports World Championship was held in Kaohsiung Arena, with more than five hundred delegates from over fifty countries worldwide. At this event, HTC displayed both the hardware and software innovation in the technological field and leadership in global development. When each representative player completed the process of signing up, they received a corresponding HTC U11 smartphone designated by the organizer and exclusively sponsored by HTC. Each smartphone had the pre-downloaded the exclusive app for players. With the outstanding photo features of HTC U11 in hand, the international delegates experienced the “Made in Taiwan” products and enjoyed Taiwan’s beauty with this transnational experiential marketing campaign, HTC U11 bolstered Taiwan brands.

During Chinese New Year 2019, HTC supported the 2019 Taipei Lantern Festival. Working with the Taipei City government, HTC coordinated festival cultures with art technology in an innovative way, promoting the event internationally. At the Grand Opening Lighting Ceremony of 2019 Taipei Lantern Festival, Mayor Ko Wen-je lit the leading lantern together with “HTC U12+ TAIPEI TWINKLE,” to kickoff the yearly festival. This year, the key themes of “Dreams” and “Hearts” were in line with the motifs conveyed in HTC brand commercials – “Persistence makes brilliance.” Through this cooperation with Taipei City Government, HTC hopes consumers can better understand our creativity and persistence in the development of the technology industry, bringing everyone more brilliant lives.

In addition to the Lantern Festival, we launched customized HTC U12+ “Bravo Bear City Edition”, a product of our collaboration with the Taipei City Government. Beyond carefully selecting a unique designer pattern, we empowered consumers to design the rear layout on their own. With more than six thousand designs to date, including customized words, font replacements, patterns, and colors, consumers were able to show their infinite creativities and create their exclusive smartphone by printing the names of their family and friends, inspiring mottos or unforgettable dialogues.

In 2018, moreover, we activated the channel strategy of HTC family in order to offer better service and sales projects with cooperated distributors. We expected to integrate over three hundred partners in order to offer better street services in town to consumers.

Since the release of the first ever wireless touch device in 1998 right through to the first 4G Android smartphone in 2010, along with the world’s first full-metal unibody smartphone in 2014 and the first dual OIS front & back camera phone in 2016, HTC has maintained its legacy in bringing widely acclaimed, first-of-its-kind innovations to market. With this 5G mobile smart hub, HTC leads the march into 5G, seamlessly weaving 5G into consumers’ lives. We have constantly gained the honors of global awards and praises from industries. We commence the 5G Navigation Project collaborated with worldwide telecom operators and continue sharing the achievements successively in media events.

Virtual Reality

HTC VIVE has kept cultivating the virtual reality eco-system since 2017, and also consolidated the leadership in the high-level virtual reality market. In 2018, HTC VIVE made a breakthrough, in which it launched to the market for the first time in view of hardware facilities. It developed a specially integrated head-displayed project, which includes “VIVE Wireless Adaptor” to furnish users with true wireless virtual reality experience, and “VIVE Pro,” a brand new VIVE head-mounted display with advanced efficiency. VIVE also introduced the optimized VIVEPORT VR and debuted VIVE Video to provide virtual reality users the most immersive experiences and enjoy the unlimited pleasure of cruising the virtual world.

The year kicked off with an introduction of VR’s first accessories with the VIVE Tracker, VIVE Deluxe Audio Strap and TPCAST wireless adaptor to provide users with more vivid experiences, an important point of focus for HTC VIVE in the virtual reality industry. In January 2017, VIVE introduced the exclusive accessories, VIVE Tracker and VIVE Deluxe Audio Strap, to endow users with more possibilities while experiencing virtual reality. Moreover, collaborating with Intel in 2018, HTC VIVE launched a revolutionary product, the VIVE Wireless Adaptor, which offers an integrated head-displayed project for actual wireless virtual reality to VIVE and VIVE Pro. VIVE Wireless Adaptor applies WiGig technology of Intel, enabling the device to function under an undisturbed 60GHz spectrum. In this way, the product achieves an ultimate level of performance with low delay and high efficiency that brings forth a vivid wireless virtual reality experience. In addition, our best quality guarantee aligns with the demands of our vast household and business users.

VIVE Pro, introduced in 2018, succeeds our promise to continue upgrading original VIVE. VIVE Pro equips with dual OLED display screens and clear 2880 x 1600 image resolution, a 78% boost compared to original VIVE. Premium high resolution takes users who is enthusiastic about virtual reality in a deeper sense of immersion, at the same time, makes words and also images more distinct. Vivid and lively pictures greatly enhance the entire experience. With built-in supreme earphone and speaker, VIVE Pro makes more enriched, animated and seemingly vicarious audio effects possible. VIVE Pro possesses ergonomic design and reinforces comfort, including a button to easily adjust the band size and to reduce the weight imposed on the front of the head so as to balance the entire weight allocation. Other upgraded features include the improved clearness and steady on audio transmission of microphone, as well as the dual front cameras which allow the creativity of developers.

Once again, “VIVE Pro” and “VIVE Wireless Adaptor” set the benchmark among worldwide virtual reality markets. Before released to the market, the products have obtained intense inquiries from all over and were immediately sold out upon being introduced.

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

To boost interest in the platform, we introduced VIVEPORT Subscription, which was VR’s first subscription service. VIVEPORT Subscription is designed to help customers navigate the burgeoning market for VR apps as well as introduce a new channel through which VR developers can monetize their content. VIVEPORT keeps coming up with new contents to create the richest, most diversified virtual reality content platform with the highest value. Starting VIVE Day in April 2019, members can download and play any of the 600+ titles in the VIVEPORT Infinity library with no restrictions.

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

In order to bring VR products closer to the lives of consumer, VIVE launched a number of successful sales combinations in 2018. In terms of co-branding, HTC VIVE and McLaren Racing together released a special edition VIVE Pro McLaren Limited Edition headset which offers an unparalleled VR racing experience to fans. On the hardware side, HTC partnered with Naver, the internationally renowned communications software operator, to launch "Back-to-school Special Sales Package" in Korea, which bundled virtual reality devices with cartoon-style co-branded audio and received a warm response in the Korean market. In addition, HTC VIVE has been launched "VIVE Wireless Adaptor" bundled sales combination in the Asia-Pacific region which was wildly loved by consumers to once meet all device needs in virtual reality experience at one time.

To continue the successful experiences in respective international major games and IT exhibits in Asia–Pacific during 2017, VIVE remains glowing and dazzling dynamically in international fairs, like Taipei Game Show, Thailand E-sports Federation, Tokyo Game Show, Thailand Game Show, Hong Kong eSports and Music Festival (HKEMF), Korea VR Festival(KVRF), Australia Penny Arcade Expo and so on. World Congress on Information Technology, G-Star, PAX Australia, Thailand Game Show and so on. We know that hardware and software contents related to virtual reality have become one of the world's major trends and one of the powerful commodities and that VIVE has continued to play a decisive role as a leader in the virtual reality industry. Besides taking part actively in major international exhibitions, VIVE has also left no stones unturned when it came to marketing and promotion. For example, cross-industry alliance with professional sports leagues, technology connection with movies music, humanities and art, cross-industry alliance with international gaming competitions, and so on to let partners in different industries know VR, experience VR and then combine VR to make the virtual reality ecosystem of VIVE getting closer to perfection.

In 2018, HTC has set many milestones and benchmarks in the virtual reality industry and the whole world. In 2019 VIVE will continue to create unlimited possibilities for the world. There's much more to come for VIVE and VR. We have begun to build the foundation for a shared vision we call "VIVE Reality" that intersects VR, AR, 5G and Edge Computing to create the computing platform of the future.

VIVE ORIGINALS

HTC VIVE ORIGINALS is one of the content brands of HTC VIVE, dedicating to the production of original contents, the expansion of native IPs, the exploration of VR films as well as the development in cultural entertainment and arts industries. We actively foster creative teams for cross-domain contents, starting with the VIVE Reality ecosystem and integrating virtual technology with humanity to reach out the world.

In 2017, we co-produced "The Deserted", which was nominated in the 74th Venice International Film Festival, with noted director Tsai Ming-Liang. Subsequently, the film was showcased on tour in Taipei Golden Horse Film Festival (TGHFF), Hong Kong International Film Festival (HKIFF), Melbourne International Film Festival (MIFF), and Moscow International Experimental Film Festival (MIEFF). The optimized 8K version launched in 2019 swept across Europe again. The premiere showcased in Eye Filmmuseum Amsterdam was well reputed. Meanwhile, the 1st Taiwan Film Festival UK also listed "The Deserted" as the sole VR film invited to be showcased. The commercial-use Theater Management System was collocated on the scene, which helped to build up a virtual reality cinema in London. The high-end premiere of 8K VR film was one of the highlights in the film festival. Following the Taiwan Film Festival UK, the 8k version of "The Deserted" was invited to be premiered in Asia under the virtual reality section of Beijing International Film Festival 2019. In 2018, HTC also collaborated with Taipei Golden Horse Film Festival and introduced a "5x1" long footage film composed of five VR films, which were directed by five Chinese golden-awarded directors. Lee Chung, Qui Yang, Chen Sheng-Chi , Chiang Wei-Liang and Midi Z were amidst them. The producers of "5x1" included the international director Hou Hsiao-Hsien and film-cutting master Liao Ching-Sung. Nevertheless, the film demonstrated the passion and attempts of HTC to take up challenges.

Produced by HTC and created by new media artist Huang Hsin-Chien, VR interacted performance "Circus Galactica" was fully participated in contents and supported technically by HTC VIVE ORIGINALS team. In 2018, it was invited to join the best-liked reality show in the U.S. "America's Got Talent." For the first time, Taiwan VR creative team stepped on the long-established NBC large reality show. Also, it was first time that "America's Got Talent" jointly performed with VR interaction new media after broadcasting for 13 years.

Produced by HTC VIVE ORIGINALS team and combined with Japanese famous IP, Panda's Ana, the cachapon brand which have sold over ten million capsule toys worldwide, three IPs, "SHAKUREL", "Fat Cute Soldiers" and "FRUITS ZOMBIE" were transferred into VR world. After creating new IP products, HTC VIVE ORIGINALS team implemented a series of IP marketing strategies along with exhibitions. The campaign set out from the promotion of the event ambassador "Dino Lee", shortening the distance between VR games and youth consumer market. Through a row of marketing and campaigns, the fair stand was extremely popular, which illustrated the feasibility of To B Business mode. Moreover, after the fair, VIVELAND, owned by VIVE, has become a long-term sales program and persisted the life cycle of IP game transforming into the VR field.

VIVE Arts

VIVE Arts harnesses cutting-edge technology to transform the way culture is experienced, delivering one-of-a-kind projects that can be accessed anywhere in the world. It fosters digital innovation, and works with leading artists, museums and cultural organizations. Since its launch in 2017, VIVE Arts has established nearly 40 partnerships with leading cultural institutions, providing them with key resources in various areas. At the same time, VIVE Arts leverages expertise and resources from VIVE Studios, VIVEPORT and VIVE X teams to maximize the support for partners to realize their vision, transforming the way they present artistic creation, exhibitions, and public and educational programs. In doing so, VIVE Arts' mission addresses a diverse, global audience and contributes to the knowledge and enjoyment of our cultural heritage.

For instance, Tate Modern, the world's most-visited contemporary art museum, presented its first virtual reality experience in its major Modigliani exhibition in November, 2017. The museum's curatorial and digital teams worked closely with VIVE Studios to produce Modigliani VR: The Ochre Atelier, as an integrated part of the exhibition. Throughout the 19 weeks, approximately 78,250 visitors experienced this thoughtfully curated content through VIVE headsets in the renowned London museum. The content is also available to the global audience through VIVEPORT.

In March 2019, HTC VIVE partnered with American Museum of Natural History, and presented the museum's first multiplayer interactive VR experience titled T. Rex: The Skeleton Crew, in the blockbuster T. Rex exhibition dedicated to the museum's 150th anniversary. The museum's leading paleontologists and science visualization team worked closely with VIVE Studios, and created the most accurate 3D model of T. Rex to date. The exhibition leveraged HTC VIVE Pro's premium wireless technology, allowing visitors to interact with each other while learning about the latest scientific discoveries on this famous dinosaur. This important exhibition is open to the public for 17 months.

HTC VIVE has actively engaged new audience through the VIVE Arts program. In 2018, HTC VIVE became the first ever official Virtual Reality Partner of Art Basel, the world's most prestigious art fair. In addition to providing support to galleries presenting virtual reality artworks at the fair, HTC VIVE also presented works by leading artists Anish Kapoor and Marina Abramovic on VIVE Pro and VIVE Focus to the 80,000 international visitors to the fair. In 2019, as the fair's official VR partner for a second year, HTC VIVE brought the Asian debut of To the Moon, the latest VR artwork created by the esteemed American avant-garde artist Laurie Anderson and Taiwan's new media artist Hsin-Chien Huang. By providing valuable support to the most forward-thinking artists of our time, the VIVE Arts program furthers HTC's long-standing commitment to arts and culture.

VIVELAND

VIVELAND is a virtual reality arcade in Taipei created by HTC. It was built in October 2016 with various types of VR experiences, such as multiplayer shooting, VR e-sports, horror haunted house, Japanese IP experiences, car racing simulators, sports and 4D seated experiences. VIVELAND has gained invaluable VR arcade operation experience to apply to other locations. We opened the largest VR multi-sensory exhibition park in Taiwan Kaohsiung in October 26, 2018, borne out of a unique collaboration with the Kaohsiung City Government with the size of 826 square-meter park. In addition, VIVELAND made the push into an overseas market with Hong Kong partnership EASCO for the franchise authorized cooperation. And we successfully landed in Hong Kong on January 18, 2019, becoming the first VIVELAND overseas. We continue to cooperate with content developers around the world to create content most appropriate for arcade operation. All of the content in VIVELAND has proven successful and profitable. Due to the accumulation of experience, VIVEPORT Arcade signed a memorandum with the Korean Illusion Inc. in December 2018 and officially introduced it to the Korean market.

VIVELAND, as a total solution provider, has successfully shipped the concept to Japan, China and Hong Kong currently. VIVELAND will step out of the Asian region and formally enter the Arab countries and Southeast Asia in 2019. And we look forward to bringing the VR arcade concept to a wider audience around the world.

Blockchain

Adopting blockchain technology and Web3.0 native support, HTC EXODUS 1 was introduced to the public in October 2018. HTC EXODUS 1 provides the premium performance and quality of design expected from HTC's flagship device lineup and combines it with the blockchain technology and software necessary to create a smartphone experience fit for a modern user and the new internet age. Through creating the world's first phone dedicated to decentralized applications and security, we have a vision to expand the blockchain ecosystem.

The collaboration with Opera is a great step towards a friendlier experience for general users to explore the blockchain applications. We hope to continue to provide easy and secure services for everyone to join the blockchain community. At the Slush 2018 Venture Capital Conference in Helsinki, Finland in December 2018, in addition to Bitcoin and Ethereum, HTC announced that HTC EXODUS 1 can now be purchased with Litecoin and also launched "Zion", the all-in-one wallet on the blockchain. The EXODUS 1 is a significant first step in creating a platform and distribution channel for creatives who make unique digital goods, while building a foundation of trust and security for users around the world.

In April 2019, Proof of Capital, a $50M blockchain-focused venture capital fund was launched with a mission to build an internet ecosystem that belongs to everyone and to usher in worldwide adoption of blockchain technology. Proof of Capital will invest and partner with big thinkers and exceptional founders who are building market-transforming companies focused on fintech (payment, remittance, custody, and wallet), infrastructure (security, identity), hardware and consumer layers of the blockchain ecosystem.

"I've been a proponent of such things for a long time; really happy to see it implemented and hopefully see wider adoption in the crypto community." HTC EXODUS has received endorsement from one of the Key Opinion Leaders (KOL), the Founder of Ethereum, Vitalik Buterin. Also, HTC EXODUS was selected as one of the 50 leading companies that is actively exploring blockchain through industry consortiums (Forbes Blockchain 50). HTC EXODUS has been pushing for security and privacy for its users globally and this nomination is the best example of its dedications in developing blockchain technologies.

Business Results

On the smartphone side, HTC continued to face stiff competition in the market; however, our share of the Taiwan smartphone market in 2018 remained in the top 5 at 6.36%, according to an internet research company.

We launched our new VIVE Pro Eye, VIVE Cosmos, VIVEPORT Infinity and VIVE Reality System at the Consumer Electronics Show (CES) 2019. We gained the world's attention and set a record of earning a remarkable 36 awards at CES 2019. HTC has worked hard and raised the bar for premium VR. As well as focusing on growth of the business, HTC has invested considerable resources into developing the VR ecosystem to expand the reach of VR far beyond gaming. Premium VR has applications in education, art, healthcare, enterprise, design, military and much more, and VIVE has been the leading choice for each sector to step into the realm of VR. HTC's hardware and software innovation is enabling a wealth of content for enterprise, culture, art, education, healthcare, and so much more, and our VIVEPORT platform enables people around the world to discover those great experiences.

Entering the most important phase of technology, VR, AR, AI, 5G and Blockchain will change the way we live, work, play and believe. We continue striving to innovate, pursuing our brilliance to create technology that benefits mankind.

As of the close of December 31, 2018, HTC's 2018 revenue was at NT$23.7 billion with a gross margin of 2.17%.

Competitive Advantages, Business Growth and Assessment of Risks Potential Factors That May Influence HTC's Competitiveness/Business Growth and Related Countermeasures

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

- Factors favorable to HTC growth

1. Collaborate with global telecom giants to demonstrate the innovation and leadership in 5G applications:
   HTC has strategically cooperated with major telecom carriers around the world to take the lead in implementing 5G applications. Launched the first 5G mobile smart hub at the end of 2018, demonstrating the breadth and depth of the cutting edge technology from the R&D team and its innovation, and leading the industry to present the 5G cloud virtual reality and the revolutionary experience brought by 5G. The coming of the 5G generation will not only improve the speed of transmission and performance of the network but also change the pattern of virtual reality and the augmented reality. The imagination of human beings will be released to move forward the realization of HTC VIVE Reality vision.

2. Cross-platform and cross-industry cooperation strengthen the innovation and development of application content:
   Since 2018, HTC VIVEPORT has started cross-platform support for other VR headset applications in the industry and will continue to expand support for other peer products in the future to grow the market scale and create substantial profits with mutual cooperation. Meanwhile, HTC is also devoted to the development of avant-garde applications. VIVE Sync is an enterprise-level VR multi-person collaboration tool developed by VIVE's in-house team, which continues to bring the highest quality commercial VR solutions to enterprises of all sizes. Combining the content from the strategic partners cross-industry with the immersion of VIVE, HTC promotes VR applications further into the fields of education, art, film and medical. The immersive VR education model would stimulate the desire of learning and exploration; VR art and film overthrow the tradition and change the way of storytelling and experiencing the works; extending VR application to the medical field, the VR system can be used as an anatomy teaching tool to present complex knowledge with more intuitive ways.

3. Integrate cutting-edge technology and lift up the standard for VR using experience:
   HTC has committed to integrating technology into applications in the development of VR product. It not only demonstrates top-notch technology but also strives to set a new standard for VR user experience. The new VIVE Pro Eye product features built-in eye tracking function able to control menu visually. Content providers can leverage eyeball data collected to optimize content and give more intuitive feedback. The new standalone VIVE Focus Plus features a pair of six-degree-of-freedom (6DoF) controllers that lead to a deeper immersion, migrating the VR experience easily from PC to standalone headset, bringing a higher level of standalone VR experience.

4. Run the ecosystem accelerator to grow the development of VR/AR industry:
   Since its establishment in July 2016, the VIVE X Accelerator Program has set up accelerator centers in Taipei, San Francisco, Beijing, Shenzhen, Tel Aviv and London, and invested in about 100 startups in both software and hardware to continuously facilitate and boost the prosperity of global VR/AR ecosystem. VIVE X is not only looking for content that has the potential to drive the consumer market, but also focuses on the application on the enterprise side and the commitment to enhance the enterprise user experience. The fourth batch focused on VR technology development of enterprise application and continued investment in companies engaged in enterprise AR/VR solution such as training simulation, venue-based entertainment experience modules, and data visualization tools.

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

1. We upgrade our materials requirement planning (MRP) system to improve our ability to manage material inventories, anticipate future demand in order to drive efficient inventory costs and reduce inventory devaluation risks. We continue to build and diversify supplier relationships to enhance supply stability. Our objectives are consistent and uninterrupted supply of all materials. HTC's leadership in the industry helps ensure that suppliers accommodate and meet HTC priorities in expanding market sales. This helps mitigate risks related to reliance on overseas suppliers for critical components. We also cultivated strategic business relationship with our suppliers.

2. Improve working efficiency to ensure maximizing the productivity in each stage; strengthen time management, standardize work operation, practice total quality management, follow the policy of continuous improvement, and reduce the unnecessary waste to enhance the competitiveness effectively.

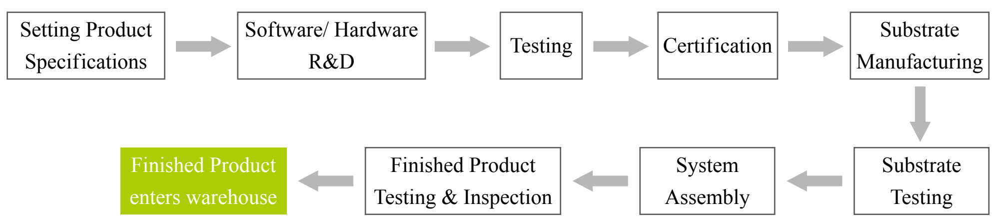
3. Actively devoted to the VR market, with launch of HTC VIVE, HTC has taken advantage of its superb technology to bring several thousand developers and partners together to create a VR content that transcends across diverse fields, including gaming, entertainment, medical treatment, vehicles, retail, and education. The goal is to set up a close circle for the VR industry, expecting HTC VIVE to bring an all-new dynamic in growth.

Key Functionalities and Manufacturing Processes for Primary Product Lines:

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

Communication speed has evolved to 5G and the evolution toward wireless broadband and the increase of wireless bandwidth. Going forward the VR system devices will adopt the application of wireless technology in order to satisfy customers' various needs through faster speed.

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



The supply of major materials:

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

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

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

Unit: NT$ millions

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

	2018		
Supplier Code	Amount	%	Relation to HTC
A	2,104	16	None
Others	10,945	84	
Total	13,049	100	

	2019Q1		
Supplier Code	Amount	%	Relation to HTC
A	254	13	None
B	191	10	None
Others	1,449	77	
Total	1,894	100	

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

Unit: NT$ millions

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

	2018		
Customer Code	Amount	%	Relation to HTC
A	6,272	26	None
Others	17,469	74	
Total	23,741	100	

	2019 Q1		
Customer Code	Amount	%	Relation to HTC
A	430	15	None
B	346	12	None
Others	2,168	73	
Total	2,944	100	

Production for the Most Recent Two-Year Period

(1) Production

Unit: 1,000 units / NT$ millions

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

	2018		
	Production Capacity	Production Quantity	Production Value
Smartphones and other items (accessories)	7,200	1,673	16,137
Total	7,200	1,673	16,137

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

Sales for the Most Recent Two-Year Period

Unit: 1,000 units / NT$ millions

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

(Continued)

	2018			
	Domestic Sales		Export Sales	
	Quantity	Value	Quantity	Value
Smartphones and other items (accessories)	791	3,432	14,917	19,552
Total	791	3,432	14,917	19,552

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

Statistics Related to the Structure of Human Resources at HTC

Employees represent one of HTC's most valuable assets and we have also invested significant resources into making the work environment at HTC diverse, challenging, and encouraging.

As of March 31, 2019, HTC employed 4,578 staff worldwide. 33% (306) of all HTC managerial positions are held by non-Taiwanese managers. Non-Taiwanese managerial and technical staff filled 24.06% of HTC managerial and technical positions. Women held 23.84% of HTC's 927 managerial positions.

(Excluding outsourced labor)

Employees by Position Type

	Mar. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Management	927	870	1,608	1,485
Specialists	1,355	1,390	2,776	2,690
Administrators	602	615	879	1,099
Technical Staff	1,694	1,935	5,128	5,655
Total	4,578	4,810	10,391	10,929

Gender, Average Age and Average Years of Service

	Mar. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Male	2,581	2,679	5,151	5,531
Female	1,997	2,131	5,240	5,398
Average Age	35.6	35.43	33.31	32.71
Average of Service	6.03	5.95	5.22	4.71

Employees' Highest Level of Academic Achievement

	Mar. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Ph.D.	77	81	108	99
Master's	1,350	1,349	2,575	2,509
Bachelor's	1,538	1,581	3,099	3,393
Technical/Vocational	487	538	1,280	934
Other	1,126	1,261	3,329	3,994

Environmental Protection Expenditures

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

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

HTC is certified OHSAS18001:2007 occupational health and safety management system, ISO 14001:2004 environmental management, and decide to proceed ISO14001:2015 the revision of environmental management procedure in 2018, ISO 14064-1:2006 greenhouse gas emission standards and ISO50001:2011 energy management standard. Certification-mandated procedures and requirements further reduce HTC pollution emissions and energy consumption and move us forward toward clean production objectives. ISO45000: 2018 edition of the occupational safety and health management system revision work is scheduled to be carried out in 2021.

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

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

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

a. Continue to strengthen the operations management on environmental protection equipment in order to comply with government regulations and reduce non-compliant incidents;
b. In addition to regular management of disposables, our policy for reduction of these disposables is carried out through categorization and education in order to reduce production of the disposables from their source. Meanwhile, reusability received priority in consideration and further categorization on the rear end is added to increase the reusability of recycled resources.
c. Continue promoting ISO 14001 environmental management, ISO 14064-1 GHG emission inventory and ISO50001 energy management system to maximize clean production benefits through technical and administrative measures.
d. Major planned environmental expenditures over the next 2 years include:

Unit: NT$ thousands

Fiscal Year / Item	Anticipated Equipment Purchases / Expenditures	Anticipated Benefits	Expenditures (estimated)
2019	1. Energy efficient lighting system, Two-line lighting control system. 2. Implementation of energy efficient air conditioning equipment 3. Waste water recycling to provide for campus watering system 4. Water / power conservation promotion activities 5. Waste reduction and recycling promotion activities 6. Campus greening efforts	1. Using LED power-saving lamps helps reduce energy waste, and using Two-line lighting control system as well the light-sensing switches equipment effectively saves from power consumption 2. Reduce energy consumption through the inverters, temperature and time controller set-up 3. Promote waste water recycling, and reduce tap water usage 4. Conserve water resources 5. Reduce waste by promoting waste reduction and recycling 6. Reduce energy consumption through campus greenification	1,700
2020	1. Implementation of energy-saving light fixtures, 2-way time-controlled light fixtures and energy-saving sensors for lighting. 2. Introduction of energy-saving air conditioning facilities. 3. Waste water retreatment for landscape irrigation within the campus. 4. Advocating and promotion of water-saving and energy-saving activities. 5. Advocating of garbage classification and resource reuse activities. 6. Greening of campus landscape.	1. Use of energy-saving light fixtures like LEDs to achieve reduction of energy waste and effective saving of power through 2-way time controlled, light-sensitive switches. 2. Air conditioning systems fitted with inverters to save energy. 3. Waste water treatment and then used for landscape irrigation to reduce use of tap water. 4. Advocating kitchens and dorms to reach target of water saving through water saving management measures. 5. Advocating and strengthening resource recycling and reuse to reduce environmental pollution from garbage. 6. Campus landscape greening to fight warming and achieve the effect of energy saving.	900
2021	1. Implementation of energy-saving light fixtures, 2-way time-controlled light fixtures and energy-saving sensors for lighting. 2. Water conservation facilities in pantry, shower rooms and toilets. 3. Introduction of energy-saving air conditioning facilities. 4. Waste water retreatment for landscape irrigation within the campus. 5. Advocating and promotion of water-saving and energy-saving activities. 6. Advocating of garbage classification and resource reuse activities. 7. Greening of campus landscape.	1. Use of energy-saving light fixtures like LEDs to achieve reduction of energy waste and effective saving of power through 2-way time controlled, light-sensitive switches. 2. Deploy efficient water saving utilities in pantry, shower rooms and toilets 3. Air conditioning systems fitted with inverters to save energy. 4. Waste water treatment and then used for landscape irrigation to reduce use of tap water. 5. Advocating kitchens and dorms to reach target of water saving through water saving management measures. 6. Advocating and strengthening resource recycling and reuse to reduce environmental pollution from garbage. 7. Campus landscape greening to fight warming and achieve the effect of energy saving.	900

(Continued)

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

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

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

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

Associated procedures include:

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

Employee safety and health:

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

Employees are the most valuable assets for HTC. To safeguard the health of our employees, the task of our health center works toward “health management”, “health promotion”, “occupational health care”, and “employee assistive programs(EAP)” for our employees, in a hope that this employee clinic (an affiliated medical room at HTC) would offer services such as ensured doctor visits, prescriptions, health consultation, physical therapy, for our employees. For employees with mid-to-high level risk of health issues after recent health check-ups, the center will arrange treatment and follow-ups from doctors and nursing staffs at the center.

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

Green product research and development

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

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

Labor Relations Management

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

1. Employee recruitment

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

2. Employee development

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

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

3. Employee benefits and employee satisfaction

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

Comprehensive employee benefits

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

We provide a diverse interface for employees, subsidize and reward employees to participate in community activities, encourage employees to develop sports and leisure interests during leisure time, enhance life experience, and organize various activities and cultural exhibitions. Through leisure, friendship and other gatherings, employees can enhance their tacit understanding and mutual understanding during their work. They also invite Taiwanese local artists to perform art exhibitions at the Taipei to allow employees to walk around during the company. Artistic works such as color and light enhance the quality of work and increase work creativity.

Employee awards

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

4. Employee retention

Specialist Retention Plan:

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

Long service awards:

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

Internal transfer assistance:

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

5. Compensation and retirement benefits

HTC employees earn market-competitive salaries that take into consideration academic background, work experience, seniority and current professional responsibilities / position level. Performance and earnings bonus are allocated based on work performance and relative level of contribution in order to motivate employees effectively.

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

6. Labor negotiations and measures to protect employee rights

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

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

Principal Contractual Agreements

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

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

4

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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

(1) Directors and Supervisors:

1. Directors' and Supervisors' information

2019.04.23 unit: Share, %

Title	Nationality/ place of Registration	Name	Gender	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Sharing (Note)		Other persons holdingshares in their name(Note)		Principal work experience and academic qualifications	Positions held concurrently in the company and/ or and other company	Other executives, Directors and Supervisors who are spouses or within second-degree of kinship		
							Shares	%	Shares	%	Shares	%		%			Title	Name	Relation
Chairwoman & CEO	Republic of China	Cher Wang	Female	2016.06.24	2019.06.23	1999.04.30	32,272,427	3.90%	32,272,427	3.94%	22,391,389	2.73%	0	0.00%	• Bachelor in Economics, University of California, Berkeley. • General Manager of the PC Division, First International Computer, Inc. (FIC)	• Chairwoman & CEO, HTC Corporation • Chairwoman (Representative), H.T.C. (B.V.I) Corp. • Chairwoman (Representative), HTC I Investment Corporation • Chairwoman (Representative), HTC Investment Corporation • Director (Representative), High Tech Computer Asia Pacific Pte. Ltd. • Director, VIA Technologies, Inc. • Director, Formosa Plastics Corporation • Director, Way-Chih Investment Co., Ltd. • Director, Hsin-Tong Investment Co., Ltd. • Director, Kun-Chang Investment Co, Ltd. • Director (Representative), Xander International Corp.	Director	Wen-Chi Chen	Spouse
Director	Republic of China	HT Cho	Male	2016.06.24	2019.06.23	2001.04.23	96,530	0.01%	96,530	0.01%	0	0.00%	0	0.00%	• Electronic Engineering, National Taipei Institute of Technology. • EMBA, National Chiao Tung University • President & CEO, HTC Corporation. • Consulting Engineer, Digital Equipment Corporation. • Director, China University of Technology • Chairman, Taiwan Chief Executive Officer Club for Social Benefit	• Chairman, HTC Social Welfare Foundation. • Chairman, HTC Education Foundation. • Director, Chunghwa Telecom Foundation. • General Manager, Atrust Corporation • Director, Asia Pacific Fuel Cell Technologies, Ltd.	None	None	None
Director	Republic of China	Wen-Chi Chen	Male	2016.06.24	2019.06.23	1999.04.30	22,391,389	2.71%	22,391,389	2.73%	32,272,427	3.94%	0	0.00%	• MSCS, California Institute of Technology. • President, Symphony Laboratories.	• Chairman & President, VIA Technologies, Inc. • Chairman, Xander International Corp. • Chairman (Representative), Chander Electronics Corp. • Non-executive Director, Television Broadcasts Limited • Director (Representative), TVBS Media Inc. • Director, Way-Chih Investment Co., Ltd. • Director, Hsin-Tong Investment Co., Ltd. • Director, Kun-Chang Investment Co, Ltd. • Chairman (Representative), VIA Labs, Inc.	Chairwoman	Cher Wang	Spouse

(Continued)

2019.04.23 unit: Share, %

Title	Nationality/ place of Registration	Name	Gender	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding (Note)		Spouse & Minor Sharing (Note)		Other persons holdingshares in their name(Note)		Principal work experience and academic qualifications	Positions held concurrently in the company and/ or and other company	Other executives, Directors and Supervisors who are spouses or within second-degree of kinship		
							Shares	%	Shares	%	Shares	%		%			Title	Name	Relation
Director	USA	David Bruce Yoffie	Male	2016.06.24	2019.06.23	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• B.A. Brandeis University • M.A., Ph.D. Stanford University for academic qualification • Director, Charles Schwab • Director, Spotfire • Director, E Ink • Director, Intel Corporation • Director, Financial Engines, Inc.	• Max and Doris Starr Professor at Harvard Business School • Director, The National Bureau of Economic Research	None	None	None
Independent Director	Republic of China	Chen-Kuo Lin	Male	2016.06.24	2019.06.23	2007.06.20	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• Bachelor in Economics, National Taiwan University. • Advanced study at the Department of Economics, Oklahoma State University. • Advanced study at the Department of Economics, Harvard University. • Chairman, Board of Tunghai University. • Minister, Ministry of Finance, Executive Yuan. • Chairman, Taiwan External Trade Development Council.(TAITRA) • Chairman, Taiwan Asset Management Corporation. • Professor, Department of Economics in National Taiwan University. • Chairman, Taiwan-Hong Kong Economic and Cultural Cooperation Council • Independent director and Compensation Committee member, Taiwan High Speed Rail Corporation.	• Compensation Committee member, HTC Corporation. • Chairman, Angel Hearts Family Social Welfare Foundation. • Chairman, New Mainstream Cultural Foundation.	None	None	None
Independent Director	Swiss Confederation	Josef Felder	Male	2016.06.24	2019.06.23	2007.06.20	229,985	0.03%	500,000	0.06%	0	0.00%	0	0.00%	• Graduate of Advanced Management Program (AMP), Harvard Business School, Boston • Deputy Director, Crossair • Chief Executive Officer, FIG (Flughafen Immobilien Gesellschaft) • Chief Executive Officer, Unique (Flughafen Zurich AG) • Chairman, The Nuance Group AG • Chairman, Zino Davidoff SA, Fribourg • Independent Director, Zino Davidoff SA, Fribourg	• Independent Director , Flughafen Zürich AG, Zürich • Independent director, Careal Property Group AG, Zurich • Independent director, AMAG, Zürich • Independent director, Edelweiss Air AG, Zurich • Independent director, Luzerner Kantonalbank AG, Luzern • Chairman, Gutsbetrieb Oetlishausen AG, Hohentannen • Chairman, Pro Juventute, Zurich • Chairman, Flaschenpost AG, Zürich • Chairman, Stöckli Swiss Sports AG, Wolhusen • Independent Vice-Chairman of AMAG Group AG, Zürich • Independent Vice-Chairman of AMAG Import AG	None	None	None
Supervisor	Republic of China	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	Male	2016.06.24	2019.06.23	1999.04.30 2006.04.13	43,819,290	5.29%	43,819,290	5.35%	0	0.00%	0	0.00%	• Ph.D in Material Science and D.Eng in Electrical Engineering, UCLA. • Executive Vice President, Lam Research Co., Ltd. • Director, TVBS Media Inc.	• Director, IC Broadcasting Co., Ltd • Vice President, Via Technologies, Inc. • Director, Chinese Christian Faith, Hope and Love Foundation. • Director, Via Faith, Hope and Love Foundation. • President, Chander Electronics Co., Ltd. • Chairman, FiberLogic Communications, Inc	None	None	None
Supervisor	Republic of China	Huang-Chieh Chu	Male	2016.06.24	2019.06.23	2011.06.15	0	0.00%	0	0.00%	0	0.00%	0	0.00%	• MBA, University of Toronto, Canada • LL.B., Department of Law, National Taiwan University • Director and President, Taiwan Teleservices & Technologies Co., Ltd. • Supervisor, Taiwan Fixed Network Co., Ltd. • Vice President, Consumer Business Group of Taiwan Mobile Co., Ltd. • Vice President, Citibank, N.A., Taipei Branch • Director, KG Telecommunications Co., Ltd.	• Chief Administrative Officer, Via Faith, Hope and Love Foundation.	None	None	None

Note: Shareholding as of 2019.04.23

2. Major shareholders of Institutional Shareholders

2019.04.23

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

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

The Institutional Shareholder is a foundation, no major shareholders.

4. Independence Analysis of Directors

2019.04.23

Conditions / Name		Meet one of the following professional qualification requirements, together with at least five years work experience			Conforms to criteria for independence (note)										
		An instructor (or higher) in a department of commerce, law, finance, accounting, or other academic departments related to the business of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in commerce, law, finance, accounting, or other areas relevant to the business of the company	1	2	3	4	5	6	7	8	9	10	Number of other public companies concurrently serving as an independent director
Chairwoman	Cher Wang			V							V		V	V	0
Director	HT Cho			V	V		V	V	V	V	V	V	V	V	0
Director	Wen-Chi Chen			V							V		V	V	0
Director	David Bruce Yoffie	V		V	V	V	V	V	V	V	V	V	V	V	0
Independent Director	Chen-Kuo Lin	V		V	V	V	V	V	V	V	V	V	V	V	0
Independent Director	Josef Felder			V	V	V	V	V	V	V	V	V	V	V	0
Supervisor	Way-Chih Investment Co., Ltd. (Representative: Shao-Lun Lee)	Not Applicable													
Supervisor	Huang-Chieh Chu			V	V		V	V	V	V	V	V	V	V	0

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

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

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

Unit: Share; %

Title	Nationality	Name	Gender	Date Elected	Shareholding (note 1)		Spouse & Minor Shareholding (note 1)		Other persons holding shares in their name (note 1)		Principal work experience and academic qualifications	Positions held concurrently in the company and/or and other company	Managers with spouses or relatives within second-degree of kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairwoman & CEO	Republic of China	Cher Wang	Female	2015.03.20	32,272,427	3.94%	22,391,389	2.73%	0	0.00%	• Bachelor in Economics, University of California, Berkeley. • General Manager of the PC Division, First International Computer, Inc. (FIC)	• Chairwoman (Representative), H.T.C. (B.V.I) Corp. • Chairwoman (Representative), HTC Investment One (BVI) Corporation • Chairwoman (Representative), HTC Investment Corporation • Director (Representative), High Tech Computer Asia Pacific Pte. Ltd. • Director, VIA Technologies, Inc. • Director, Formosa Plastics Corporation • Director, Way-Chih Investment Co., Ltd. • Director, Hsin-Tong Investment Co., Ltd. • Director, Kun-Chang Investment Co, Ltd. • Director (Representative), Xander International Corp.	Director	Wen-Chi Chen	Spouse
Chief Financial Officer	USA	Peter Shen	Male	2016.06.20	0	0.00%	0	0.00%	0	0.00%	• M.S. in Business Administration, University of Colorado • Chief Financial Officer, Inotera Memories, Inc. • Vice President, Finance, Micron Technology, Inc. • Financial Director, Jabil Circuit	• Director (Representative), HTC Investment Corporation • Director (Representative), HTC Communication Co., Ltd. • Director (Representative), HTC Holding Cooperatief U.A • Director (Representative), HTC Electronics (Shanghai) Co., Ltd. • Director (Representative), HTC EUROPE CO., LTD. • Director (Representative), HTC America Holding Inc. • Director (Representative), HTC America Inc. • Director (Representative), HTC VIVE Holding (BVI) Corp. • Director (Representative), HTC VIVE TECH (BVI) CORP. • Director (Representative), HTC VIVE INVESTMENT(BVI) Corp • Chairman (Representative), HTC VIVE Tech Corporation • Chairman (Representative), DeepQ Technology Corp. • Chairman (Representative), Uomo Vitruviano Corp.	None	None	None
General Counsel	USA	Marcus Woo	Male	2014.10.31	0	0.00%	0	0.00%	0	0.00%	• PhD in Law, Indiana University • Vice President, Chunghwa Picture Tubes	• Director (Representative), HTC Investment Corporation • Director (Representative), High Tech Computer Asia Pacific Pte. Ltd. • Director (Representative), S3 Graphics Co., Ltd. • Director (Representative), HTC Europe Co., Ltd. • Director (Representative), HTC VIVE Tech Corporation • Director (Representative), HTC VIVE TECH (UK) Limited • Director (Representative), DeepQ Technology Corp. • Director (Representative), Uomo Vitruviano Corp.	None	None	None
Chief Technology Officer	Republic of China	WH Liu	Male	2008.06.01	118,675	0.01%	0	0.00%	0	0.00%	• Master in Electronic Engineering, National Taiwan University of Science and Technology. • The Chinese University of Hong Kong EMBA • Senior Manager, WM System Architecture Design.	• Director (Representative), HTC Communication Technologies (Shanghai) Limited	None	None	None
Senior VP of Research & Development	Republic of China	Adrian Tung	Male	2018.07.16	208,000	0.03%	0	0.00%	0	0.00%	• Master in Electrical and Control Engineering, National Chiao Tung University	None	None	None	None
VP of Product & Strategy	Republic of China	Raymond Pao	Male	2018.07.16	80,000	0.01%	0	0.00%	0	0.00%	• Master in Electrical Engineering , University of Southern California • Master in Mechanical Engineering, National Taiwan University	None	None	None	None
Chief Administrative Officer	Republic of China	Caleb OuYang	Male	2018.06.08	0	0.00%	0	0.00%	0	0.00%	• Bachelor in Marine Engineering, National Taiwan Ocean University	None	None	None	None
Associate Vice President	Republic of China	Hsiu Lai	Female	2015.09.16	31,957	0.00%	0	0.00%	0	0.00%	• Bachelor in Finance, National Taiwan University • Master in Law, National Chengchi University • MBA, University of Southern California • Director of Finance & Accounting Division, LITE-ON TECHNOLOGY CORP	• Director (Representative), HTC America Innovation, Inc.	None	None	None

Note 1: Shareholding as of 2019.04.23

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

1. emuneration paid to Directors (including Independent Director)

2018; Unit: NT$ thousands

		Remuneration paid to Direcotrs								Total Remuneration (A+B+C+D) as a percentage of net income (%)		Compensation earned as employee of HTC subsidiary affiliates								Total Compensation (A+B+C+D+E+F+G) as a percentage of net income (%)		
		Salary (A)(Note 1)		Retirement pay (B)		Remuneration (C) (Note 2)		Allowance (D) (Note 3)				Salary,Bonuses, and Allowance (E)(Note4)		Retirement pay (F)		Employee compensation (G) (Note 5)						
																HTC		All Consolidated Entities (Note 6)				
Title	Name	HTC	All Consolidated Entities (Note 6)	HTC	All Consolidated Entities (Note 6)	HTC	All Consolidated Entities (Note 6)	HTC	All Consolidated Entities (Note 6)	HTC	All Consolidated Entities (Note 6)	HTC	All Consolidated Entzities (Note 6)	HTC	All Consolidated Entities (Note 6)	Cash	Stock	Cash	Stock	HTC	All Consolidated Entities (Note 6)	Compensation paid to Directors from non-subsidiary affiliates (Note 8)
Chairwoman	Cher Wang																					
Director	HT Cho																					
Director	Wen-Chi Chen																					
Director	David Bruce Yoffie	28,453	28,453	0	0	0	0	0	0	0.24	0.24	0	0	0	0	0	0	0	0	0.24	0.24	0
Independent Director	Chen-Kuo Lin																					
Independent Director	Josef Felder																					

Note 1: Directors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)
Note 2: The amount proposed for distribution to Directors as compensation, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year.
Note 3: Expenses relating to business execution by directors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).
Note 4: All salary, allowances, severance pay, various bonuses, cash rewards, transportation allowances, special allowances, various material benefits, accommodations, and personal cars received by Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers and employees) in the preceding fiscal year.
Note 5: Planned amount of employee compensation when Directors concurrently serving as employees (including those concurrently serving as General Manager, Assistant General Manager, or other managerial officers or employees) received employee compensation (including stock and cash) in the most recent fiscal year.
Note 6: Total amount of all remunerations paid to Directors by all consolidated entities (including HTC).
Note 7: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by Directors in their capacity as Director, Supervisor, or managerial officer of a non-subsidiary affiliate.

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

2. Remuneration paid to Supervisors

2018; Unit: NT$ thousands

		Remuneration paid to Supervisors						Total Remuneration (A+B+C) as a percentage of net income (%) (Note 4)		
		Salary (A) (Note 1)		Remuneration (B) (Note 2)		Allowance (C) (Note 3)				
Title	Name	HTC	All Consolidated Entities (Note 4)	HTC	All Consolidated Entities (Note 4)	HTC	All Consolidated Entities (Note 4)	HTC	All Consolidated Entities (Note 4)	Compensation paid to Supervisors from non-subsidiary affiliates (Note 5)
Supervisor	Huang-Chieh Chu									
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	3,694	3,694	0	0	0	0	0.03	0.03	0

Note 1: Supervisors' compensation in the most recent fiscal year (including salary, allowances, severance pay, and various awards and bonuses)
Note 2: The amount proposed for distribution to Supervisors as remuneration, as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year.
Note 3: Expenses relating to business execution by Supervisors in the most recent fiscal year (includes transportation allowances, special allowances, various subsidies, accommodations, and personal cars).
Note 4: The total amount of all remunerations paid to Supervisors by all consolidated entities (including HTC).
Note 5: Remunerations refer to salary, compensation, and allowances relating to the conduct of business received by Supervisors in their capacity as Director, Supervisor, or managerial officer of a non-subsidiary affiliate.

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

3. Remuneration paid to General Manager and Assistant General Managers

Remuneration paid to General Manager and Assistant General Managers

Title	Name	Salary (A) (Note 1) HTC	Salary (A) (Note 1) All Consolidated Entities (Note 6)	Retirement pay (B) (Note 2) HTC	Retirement pay (B) (Note 2) All Consolidated Entities (Note 6)	Bonus & Perquisite (C) (Note 3) HTC	Bonus & Perquisite (C) (Note 3) All Consolidated Entities (Note 6)	Employee profit sharing (D) (Note 4) HTC Cash	Employee profit sharing (D) (Note 4) HTC Stock	Employee profit sharing (D) (Note 4) All Consolidated Entities (Note 6) Cash	Employee profit sharing (D) (Note 4) All Consolidated Entities (Note 6) Stock	Total Remuneration (A+B+C+D) as a percentage of net income (%) HTC	Total Remuneration (A+B+C+D) as a percentage of net income (%) All Consolidated Entities (Note 6)	Compensation paid to President & Vice Presidents from non-subsidiary affiliates (Note 7)
Chief Financial Officer	Peter Shen													
General Counsel	Marcus Woo													
Chief Technology Officer	WH Liu													
Senior VP of Research & Development	Adrian Tung (Note a)	26,415.27	34,836.43	527.61	527.61	41,989.06	52,328.19	23,725.00 (Estimated)	0	23,725.00 (Estimated)	0	0.77%	0.92%	N/A
VP of Product & Strategy	Raymond Pao (Note b)													
Chief Administrative Officer	Caleb OuYang (Note c)													
Associate Vice President	Hsiu Lai													

Note 1: General Manager and Assistant General Managers' compensations in the most recent fiscal year include salary, allowances, and severance pay.
Note 2: Pensions funded according to applicable law.
Note 3: Various awards, bonuses, transportation allowances, special allowances, special subsidies, accommodations, and personal cars by General Manager and Assistant General Managers in the most recent fiscal year. The appropriated employee incentive and retention bonuses are estimated amount.
Note 4: The amount proposed to distribute to General Manager and Assistant General Managers as employee compensation (including stock and cash), as passed by the Board of Directors prior to the Shareholders' Meeting for the most recent fiscal year.
Note 5: Number of shares represented by employee stock warrants (not including the portion already exercised) received by General Manager and Assistant General Managers up to the date of printing of this annual report.
Note 6: Total amount of all remunerations paid to General Manager and Assistant General Managers by all consolidated entities (including HTC).
Note 7: Remunerations refer to salary, compensation, employee bonuses, and allowances relating to the conduct of business received by General Manager and Assistant General Managers in their capacity as director, supervisor, or managerial officer of a non-subsidiary affiliate.
Note 8: This chart lists persons who have served as HTC's General Manager and Assistant General Managers on 31 December 2018.
Note a: Newly appointed on 16 July 2018.
Note b: Newly appointed on 16 July 2018.
Note c: Newly appointed on 8 June 2018.

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

Remuneration paid to General Manager and Assistant General Managers

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

Note 1: Peter Shen, Caleb OuYang, Hsiu Lai
Note 2: Caleb OuYang, Hsiu Lai
Note 3: Marcus Woo, WH Liu, Adrian Tung, Raymond Pao
Note 4: Peter Shen, Marcus Woo, WH Liu, Adrian Tung, Raymond Pao

4. Names of managers who received employee compensation and status of distribution

Title	Name	Employee Compensation - in Stock (note 1)	Employee Compensation - in Cash(note 1)	Total(note 1)	Ratio of Total Amount to Net Income (%)(note 2)
Chief Financial Officer	Peter Shen	0	23,725.00 (Estimated)	23,725.00 (Estimated)	0.20%
General Counsel	Marcus Woo				
Chief Technology Officer	WH Liu				
Senior VP of Research & Development	Adrian Tung (Note a)				
VP of Product & Strategy	Raymond Pao (Note b)				
Chief Administrative Officer	Caleb OuYang (Note c)				
Associate Vice President	Hsiu Lai				

Note 1: The aforementioned employee compensation for 2018 are estimated figures
Note 2: Net income is NTD12,068, 202 thousand in 2018.
Note a: Newly appointed on 16 July 2018.
Note b: Newly appointed on 16 July 2018.
Note c: Newly appointed on 8 June 2018.

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

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

	Total remuneration as a percentage of net income			
	2018		2017 (Note)	
Title	HTC	All Consolidated Entities	HTC	All Consolidated Entities
Directors	0.13%	0.13%	N/A	N/A
Supervisors	0.03%	0.03%	N/A	N/A
President and Vice Presidents	0.77%	0.92%	N/A	N/A

Note: Net income with negative numbers in fiscal 2017.

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

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

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

The Eighth Board of Directors conducted 4(A) meetings in 2018. The Directors and Supervisors' attendance status is as follows:

Title	Name	Attendance in Person B	By Proxy	Attendance Rate in Person (%) 【B/A】	Notes
Chairwoman	Cher Wang	4	0	100%	
Director	Wen-Chi Chen	4	0	100%	
Director	HT Cho	4	0	100%	
Director	David Bruce Yoffie	3	1	75%	
Independent Director	Chen-Kuo Lin	4	0	100%	
Independent Director	Josef Felder	3	1	75%	
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	4	0	100%	
Supervisor	Huang-Chieh Chu	4	0	100%	

Other matters to be included:

1. If any of the following circumstances occur during board meetings, the date of said meeting, session number, proposal content, all independent director opinions, and the Corporation's responses to said independent director opinions:

   (1) Items listed according to Article 14-3 of the Securities and Exchange Act:

Board of Director	Agenda Content	Independent Director Opinions	The Corporation's responses to Independent Director Opinions	Resolutions
2018.03.25 (8-11)	Report on Company's derivative transactions for fourth quarter 2017	Approved	Not applicable	Approved by all directors in attendance.
	Proposal on the appoint the Company's internal audit officer	Approved	Not applicable	Approved by all directors in attendance.
2018.05.05 (8-12)	Report on Company's derivative transactions for first quarter 2018	Approved	Not applicable	Approved by all directors in attendance.
2018.07.27 (8-13)	Report on Company's derivative transactions for second quarter 2018	Approved	Not applicable	Approved by all directors in attendance.
2018.11.05 (8-14)	Report on Company's derivative transactions for third quarter 2018	Approved	Not applicable	Approved by all directors in attendance.
	Proposal on the release of Company's internal audit officer	Approved	Not applicable	Approved by all directors in attendance.

   (2) Other instances where an independent director expressed objections or reservations on record or through written opinions regarding board meeting proposals, apart from the aforementioned matters: None.

2. There was no Directors' abstention from discussion due to conflicts of interests in 2018.

3. Measures taken to strengthen the functionality of the Board of Directors and the status of implementation during current and preceding fiscal years:
   (1) At the time of end-of-term elections for Directors and Supervisors in the 2016 fiscal year, HTC selected two Independent Directors in accordance with the provisions of the Securities and Exchange Act in order to strengthen the independence and functions of Directors and enhance the operational effectiveness of the Board. In 2014, the "Corporate Governance Principles" were completed and adopted, guaranteeing that the Board of Directors has the authority to independently supervise corporate operations and to make all decisions necessary to fulfill its responsibilities to shareholders and to society.

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

   (3) Currently, prior to the establishment of the audit committee, some of the committee's functions are performed by the Supervisors meetings. Regular Supervisors meetings are convened on a quarterly basis to hear reports on important financial, legal, and internal audit matters. There is also a joint assessment between the Supervisors and CPA on the principles and appropriateness of various allowances and reserves in the financial statements.

   (4) HTC has also been endeavoring in recent years to enhance the timeliness and transparency of its information disclosure. In addition to making timely posting of important financial and business information on the Market Observation Post System in accordance with regulations to allow investors timely access the information on the company's operations and performance. The HTC Investor Relations Website also set up the corporate governance page along with disclosures of financial information.

(2) Supervisor participation in Board of Directors meetings

The Eighth Board of Directors conducted 4 (A) meetings. The Supervisors' attendance status is as follows:

Title	Name	Attendance in Person B	Attendance Rate(%) 【B / A】	Notes
Supervisor	Wei-Chi Investment Co., Ltd. Representative: Shao-Lun Lee	4	100%	
Supervisor	Huang-Chieh Chu	4	100%	

Other matters to be included:

1. Composition and Responsibilities of Supervisors:
   The structure of the Supervisors' Meetings at HTC is well established and it carries out some functions at the audit committee.
   (1) Supervisor communication with employees and shareholders (e.g., channels and methods of communication) Supervisors can make use of channels such as Supervisors Meetings, Board of Directors meetings, Shareholders Meetings, and internal audit reports to communicate with management-level officers and with shareholders.

   (2) Supervisor communication with Chief Internal Auditor and CPAs (e.g., financial and operational matters on which they communicate, their methods, and results)

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

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

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

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

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

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

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

Item	Implementation Status			Reason for Non-implementation
	YES	NO	Summary	
1. Whether the company has adopted and revealed principles for practice of corporate governance in accordance with "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies"?	v		In 2014, HTC adopted the "HTC Corporate Governance Principles". Its provisions are based on the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies and are announced in the English and Chinese investor relations websites.	None
2. Shareholding Structure & Shareholders' Rights				
(1) Whether the company has the internal operation procedures of handling shareholder suggestions, questions, lawsuits or complaints, and proceed by complying with the procedures.	v		To protect shareholders' interests, HTC has appointed spokesperson to properly handle any questions, suggestions, or disputes involving shareholders.	None
(2) Whether the company understands the major shareholders and the ultimate owners of these major shareholders.	v		The Company has a good understanding of its major shareholders through shareholder registers provided by stock agents at book closures. HTC also provides information regularly on pledges and the increase and decrease in shareholdings of shareholders with a more than 10% stake in the company.	None
(3) Whether the company sets up and executing of risk management mechanism and "firewalls" between the company and its affiliates	v		The division of responsibilities between HTC and its affiliates with respect to management of personnel, resources, and finances is clear. Risk assessments are rigorously performed and appropriate firewalls have been established. HTC conducts business with affiliates based on the principles of fairness and reasonableness and fully observe the operating Procedures for transactions with Specific Companies, Enterprise Groups and Related Parties and other related regulations. Terms and conditions, pricing, and payment methods are clearly prescribed in contracts to avoid non-arms-length transactions and financial tunneling. When it is necessary to eliminate non-competition restrictions on directors and managerial officers, requests are duly submitted to the Shareholders' Meeting and Board for approval.	None
(4) Whether the company has adopted internal rules to forbid against use of unpublicized information in the market by internal staffs for purchase of priced stocks?	v		The company has adopted the"Operational Procedures for Handling Material Inside Information and Preventing Insider Tranding". It governs purchase and sale of priced stocks by internal staffs.	None
3. Composition and Responsibilities of the Board of Directors				
(1) Whether the Board of Directors has adopted guidelines for diversity of composing members and has put the guidelines into full practice?	v		The company has stipulated in the "Principles for practice of corporate governance" that the board of directors of the company have multiple professional backgrounds and rich experience in management, leadership decision, industrial knowledge, international view, financial analysis, and other diversified professional background and extensive business experience. There are 6 directors in the eighth board of directors, two of them are independent directors. At present, there is a female director. The directors' educational background, gender, professional qualifications and working experience, please refer to the corporate governance report 4. Directors and Supervisors.. The data of directors and supervisors in corporate governance reports are available. The directors all have sufficient experience in corporate governance and industrial technology, please refer to note 1.	None
(2) Whether the company is willing to set up various other functional committees, in addition to the committees for salaries/ compensations and auditing set up according to the law?		v	For the purpose of developing supervision functions and strengthening management mechanisms, the Board of Directors of the Company may, taking into account the size of the Board and the number of the Independent Directors, set up remuneration or any other functional committees.	Considering the number of the Independent Directors, HTC has only set up the remuneration committees.

(Continued)

Item	Implementation Status			Reason for Non-implementation
	YES	NO	Summary	
3. Composition and Responsibilities of the Board of Directors				
(3) Whether the company has adopted rules and methods for assessment on performances of the Board that will be carried out annually on a regular basis?	v		The company has adopted "Rules Regarding Organization for the Salary and Compensation Committee" where rules and methods are specified for assessment on performance of the Board. Under periodic reviews are annual and long-term goals for performance of the Board, as well as policies, rules, standards, and structures for the salary and compensation.	None
(4) Whether the company will regularly assess independence of its certified accountants?	v		In 2008, HTC started to have its Supervisors review the independence of CPAs on an annual basis. Prior to submitting a proposal to change CPA to the Board, the CPA will be interviewed and his credentials reviewed by the Supervisors to assess his independence. CPA assessment results for 2018 were approved by the 14th Board Meeting held by the 8th Board of Directors, confirming that the CPAs Wen-Yea Shyu and Kwan-Chung Lai of Deloitte & Touche both fulfilled the assessment standards for independence and competency (Note 2), and a letter of declaration was provided by Deloitte and Touche (Note 3).	None
4. Whether the company has set up a full-time or part-time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors and supervisors, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders meetings)	v		HTC has set up corporate governance unit and personnel to be in charge of corporate governance affairs to furnishing information required for business execution by directors and supervisors, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders meetings.	
5. Whether the company has established a channel for communicating with Stakeholders (including but not limited to shareholder, employee, customer and supplier, etc.), set up a section for Stakeholders on the company website, and properly responded to important topics regarding corporate social responsibilities that Stakeholder care about?	v		HTC provides detailed contact information, including telephone numbers and email addresses, in the "contact us" section of its corporate website. We also have personnel in place to exclusively deal with messages to the spokesperson and investor mailboxes so that various interested parties will have channels to communicate with HTC.	None
6. Whether the company has delegated a professional shareholder services agency for handing AGM affairs?	v		The company has delegated CTBC Bank Co., Ltd. to be the shareholder service agency for handling AGM affairs.	None
7. Information Disclosure				
(1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance	v		HTC has both Chinese and English websites. HTC Investors pages provide information on financial and business and corporate governance, while PRODUCTS pages provide information relating to our products and services.	None
(2) Other information disclosure channels (e.g. maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)	v		HTC has English and Chinese investor relations websites. Dedicated personnel have been assigned to collect and update information to websites. Chief Financial Officer Peter Shen has been appointed spokesperson and a spokesperson email address has been established.	None

(Continued)

Item	Implementation Status			Reason for Non-implementation
	YES	NO	Summary	
8. Other important information helpful to understanding HTC's corporate governance practices (including but not limited in employee rights and interests, employee care, investor relations, supplier relations and rights of Stakeholders, professional development of the Board of Directors, Supervisors, and managerial officers, status of implementation of risk management policies and standards for measurement of risk, status of customer-protection policy implementation, and liability insurance provided by HTC to the Board of Directors and Supervisors) :	v		(1) Employee rights and interests and employee care HTC's employee code of conduct provides rules and guidelines for employees to follow when involved in company operations. All employees of the company and its branches and subsidiaries, regardless of their position, level, or location, need to abide by this code of conduct. Any unlawful conduct, either at the company or otherwise is prohibited. HTC is committed to providing a safe and healthy work environment, to respecting individuals and offering fair equality of opportunity, and to protecting company assets and personal information. In relations with customers and suppliers, HTC commits to maintaining long-term relationships on a fair and reasonable basis in order to create win-win partner relationships. In the Conflicts of Interest section in "HTC's Code of Conduct", HTC provides principles of conduct to guide employees. HTC's hiring policies comply with the relevant laws and regulations and provide fair opportunities to applicants. Hiring decisions are based on HTC's operational needs, nature of the work, and appli cants' abilities. Fair opportunities are provided to both applicants and employees. There will be absolutely no discrimination on the basis of nonwork-related factors, such as race, skin color, social position, language, belief, religion, political attillation, family origin, gender, sexual orientation, marital status, appearance, facial features, mental or physical disabilities, previous union affiliation, or any other factor protected by government order. HTC management adheres firmly to the principles of respect for the individual, good faith, and responsibility. These principles are applied (but not limited) to recruitment, hiring, training, promotion, pay scales, benefits, transfers, and community activities. HTC is committed to providing employees with a working environment free of discrimination or harassment (including sexual harassment). Any form of speech or conduct intended to incite hatred, conduct which could lead to accidental injury, or discrimination, will be immediately reported to the responsible department for investigation and punishment. In addition to complying with legal requirements, HTC respects the privacy of its employees and protects their personal information, and never arbitrarily discloses personal data of employees. Employees are also expected to abide by this principle in their interactions, and to avoid discussing private matters or secret information of others (including but not limited to salary and bonus information). (2) Investor relations HTC carries out its responsibility in the area of investor relations by endeavoring to enhance the transparency and timeliness of information disclosure. In addition to immediate announcement of material information and information disclosure. In addition to the regularly scheduled information disclosures above, HTC also participates in investment seminars held by local and overseas securities firms and investor/press conferences; and arranges meetings with domestic and foreign investors in order to further explain financial figures and operational results that have already been publicly released. Also, more than ten international securities houses routinely publish analyst reports on HTC, providing investors with independent, professional investment analyses. (3) Supplier relations and rights of interested parties HTC has adopted "Procedures for Transactions with Specific Companies, Group Enterprises, and Related Parties and Supplier Integrity Commitment Letter"to guarantee the rights and interests of HTC and interested parties. Purchasing contracts are also signed with suppliers to govern to transactions and cooperative efforts to protect the lawful rights and interests of all parties. (4) Professional development of the Board of Directors, Supervisors, and managerial officers: HTC's Board of Directors and Supervisors voluntarily attend seminars held by professional training institutes as required by law and regulation. In addition, to further strengthen implementation of corporate governance, regular courses are also planned on finance, business, commerce, law, and accounting subjects that are related to corporate governance, as well as courses on internal control and responsibility in connection with preparation of financial reports. Details of professional development courses taken by the Board of Directors, Supervisors, and managerial officers for 2017 can be found in Note 4 and 5.	

(Continued)

Item	Implementation Status			Reason for Non-implementation
	YES	NO	Summary	
8. Other important information helpful to understanding HTC's corporate governance practices (including but not limited in employee rights and interests, employee care, investor relations, supplier relations and rights of Stakeholders, professional development of the Board of Directors, Supervisors, and managerial officers, status of implementation of risk management policies and standards for measurement of risk, status of customer-protection policy implementation, and liability insurance provided by HTC to the Board of Directors and Supervisors) :			(5) Status of implementation of risk management policies and standards for measurement of risk: HTC has adopted relevant risk management policies and standards for measurement of risk, and has established a dedicated unit to carry out risk management and risk measurement. With respect to implementation, HTC has reassessed its business risks after transitioning into a brand company. Risk factors are also reflected in financial statement items such as bad debts and warranty reserves which are reviewed by Supervisors and CPAs to ensure they are reasonable and appropriate. HTC's management of potential risk associated with promotion of its global brand is explained below: 1. Exchange rate risk: Foreign exchange movements are monitored and managed / hedged by dedicated personnel. Reserves for on-book liabilities are valued at the exchange rate on the balance sheet date, reducing as much as possible the effects of currency fluctuations on HTC's business and finances. 2. Receivables risk: Receivables risk is managed effectively by the finance department to ensure receivables quality and lower the risk of bad debt. 3. Management of idle inventory: In addition to enhancing supplier management and demand forecast, idle inventory is attended to early and reserves for loss taken in an appropriate manner. 4. Global tax risk: To comply with global tax compliance, our company engaged with international tax advisory for periodical review. 5. Product design quality: To ensure quality of design, HTC has established a department for design quality, which is exclusively responsible for control and management of quality in hardware and software, product safety, and conformance with environmental regulations around the world. The department provides a complete range of product testing and certification. (6) Status of customer-protection policy implementation: HTC strictly abides by the contracts it signs with customers to protect consumer rights and interests. Regular deliberation on and assessment of the Product Warranty Reserve for after-sales services ensures that allocations made to such reserves are reasonably sufficient and warranty responsibilities of the Company are adequately expressed. (7) Liability insurance provided by HTC to the Board of Directors and Supervisors: Currently, HTC has purchased Liability Insurance for the Board of Directors, Supervisors, and key personnel (please see Note 6 for details), thereby transferring the risk arising from erroneous or improper conducts by Directors, Supervisors, or key personnel.	
9. Please indicate the improvement of the results of the Corporate Governance Evaluation System issued by the Company's Corporate Governance Center of the Taiwan Stock Exchange Co., Ltd. in the last year and provide priority measures and measures for those who have not yet improved. HTC improved the Company's assessment of the fifth corporate governance Or priority to improve the response measures, as follows: (1) The company has fully disclosed the various policies for the composition of Board of Directors in the annual report and website. (2) The company has fully disclosed the Independent Directors' opinions on the major resolutions of the board of directors and the company's handling of the opinions of independent directors in the annual report.				

Note 1: Implementation of board diversification policy

		Core diversification item							
Name	Gender	operational judgment	accounting and financial analysis	management administration	crisis management	Industrial knowledge	International market perspective	Ability to lead	Ability to make decisions
Cher Wang	Female	V		V	V	V	V	V	V
Wen-Chi Chen	Male	V		V	V	V	V	V	V
HT Cho	Male	V		V	V	V	V	V	V
David Bruce Yoffie	Male	V	V	V	V	V	V	V	V
Chen-Kuo Lin	Male	V		V	V	V	V	V	V
Josef Felder	Male	V		V	V	V	V	V	V

Note 2: Independence assessment indicators of CPA

Item	Evaluation Items	Yes	No
1	Whether the CPA is acting as Director of the Company or its related enterprises?		V
2	Whether the CPA owns at least 1% outstanding shares or being top ten shareholders of the Company or its related enterprises?		V
3	Whether the CPA is acting as General Manager or key managerial Officer of the Company or its related enterprises?		V
4	Whether the CPA has a direct or material indirect financial interest in the Company or its related enterprises?		V
5	Whether a former partner within one year of disassociating from the firm joins the Company as a Director, or Officer or is in a key position to exert significant influence over the subject matter of the engagement?		V
6	Whether the CPA has a significant close business relationship with the Company?		V
7	Whether the CPA enters into a potential employment negotiations with the Company?		V
8	Whether the members of the assurance team have being a Director, or Supervisor of the Company or its related enterprises, or employed by the Company or its related enterprises in a position to exert significant influence over the subject matter of the engagement within the last two years?		V
9	Whether the member of the engagement team has a close or immediate family member who is a Director, or officer of the Company or an employee of the Company who is in a position to exert significant influence over the subject matter of the engagement?		V
10	Whether any amount of loans extended or any amount of guarantee provided between the CPA and the Company or the Directors of the Company?		V
11	Whether the CPA provides non-assurance services which performed by the firm for the Company that may affects directly a material item of the assurance engagement?		V
12	Whether the CPA provided audit services to the Company for seven consecutive years?		V
13	Does the CPA confirm that the Associated Accounting Firm has complied with the norms of independence?	V	
14	Is the CPA complying with No. 10 of the Norm of Professional Ethics for Certified Public Accountant of the Republic of China of the CPA on independence?	V	
15	Whether the Company takes the CPA's "Detached Declaration of independence"?	V	

Note 3: Letter of declaration from Deloitte & Touche

October 11, 2018

HTC Corporation

Gentlemen:
WE HAVE BEEN ENGAGED TO AUDIT THE FINANCIAL STATEMENTS OF HTC CORPORATION AS OF DECEMBER 31, 2018 AND FOR THE YEAR ENDED. THE AUDIT ENGAGEMENT TEAM MEMBERS MAKE THE DECLARATION OF COMPLYING WITH THE INDEPENDENCE EWQOIREMENTS GOVERNED BY THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS OF THE REPUBLIC OF CHINA.

1. The audit engagement team members, their spouses and dependents do not participate in the following conditions:
   a. Holding a direct or material indirect financial interests with HTC Corporation.
   b. Having a close business relationship which may impair independence with HTC Corporation and its director, supervisor or officer.

2. During the period of the audit engagement, the audit engagement team members, their spouses and dependents are not appointed as HTC Corporation director, Supervisor, officer or in any key position having a direct and significant influence over the audit work.

3. The audit engagement team members do not have a relationship with HTC Corporation director, Supervisor, or officer or their immediate family or second degree relatives.

4. The audit engagement team members do not accept gifts or hospitality from HTC Corporation or its director, Supervisor, officer or major stockholder where the value is clearly significant.

5. The audit engagement team members execute necessary procedures and are not aware of any violation of independence or conflicts of interest.

Very truly yours,

DELOITTE & TOUCHE

Wen-Yea, Shyu
Partner
Wen-yea Shyu

Kwan-Chung, Lai
Partner
Kwan-Chung Lai

Note 4: Continuous Education/Training of the Board of Directors and Supervisors

Title	Name	Date of Training From	Date of Training To	Organization	Training	Hours	Notes
Chairwoman & CEO	Cher Wang	2018.11.05	2018.11.05	Taiwan Corporate Governance Association	Prevention and analysis of the insider trading case	3	
Director	HT Cho						
Director	Wen-Chi Chen						
Independent Director	Chen-Kuo Lin						
Supervisor	Huang-Chieh Chu						
Supervisor	Shao-Lun Lee						

Note 5: Continuous Education/Training of Management Team

Title	Name	Date of Training From	Date of Training To	Organization	Training	Hours	Notes
Chief Financial Officer	Peter Shen	2018.11.05	2018.11.05	Taiwan Corporate Governance Association	Prevention and analysis of the insider trading case	3	
General Counsel	Marcus Woo						
Chief Technology Officer	WH Liu						
Senior VP of Research & Development	Adrian Tung						
VP of Product & Strategy	Raymond Pao						
Associate Vice President	Hsiu Lai	2018.11.09	2018.11.09	Accounting Research and Development Fundation	Continually training for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12	

Note 6: Board of Directors, Supervisors and Key Personnel Liability Insurance

No	Insured Object	Insurance Company	Insured Amount	Insurance Period	Notes
1	All Directors, Supervisors and juristic person directors' representatives at investee companies and key personnel appointed by HTC	Fubon Insurance Co., Ltd.	US$: 35,000,000	From: 2017.03.15 To: 2018.03.15	Renewal
2	All Directors, Supervisors and juristic person directors' representatives at investee companies and key personnel appointed by HTC	Fubon Insurance Co., Ltd.	US$: 35,000,000	From: 2018.03.15 To: 2019.03.15	Renewal

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

1. Compensation Committee Members' Information

2019.04.23

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

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

2. The State of Operations of The Compensation Committee

1. Numbers of the Compensation Committee members: 3 persons.
2. Terms of Office of the Third Compensation Committee: from 2 August 2016 to 23 June 2019. The Compensation Committee conducted 2 (A) meetings in 2018.

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate in Person(%) (B / A) (Note)	Notes
Convener	Chen-Kuo Lin	2	0	100%	
Member	Yeong-Cheng Wu	2	0	100%	
Member	Ti-Hsiang Wei	1	1	50%	

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

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

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

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

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

(Continued)

Item	Implementation Status			Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
	Yes	No	Summary	
2. Develop a sustainable environment				
(1) Whether the company exerts to improve its efficiency in the utilization of all resources and the use of recycled materials with low environmental impact?	v		In terms of power usage, all of the power supplies that come with HTC's products conform to international standards such as the US Energy Star, California Energy Commission, and the EU Code of Conduct on Energy Efficiency of External Power Supplies. The company provides power supplies that have greater energy efficiency than required by the above measurement standards, thereby achieving both energy savings and carbon reduction. In 2013, we chose HTC One as its representative product. In a concerted effort with suppliers, HTC One was able to pass third party product verification, and became the first Smartphone to meet comprehensive international standards for carbon footprint and life cycle assessment, including ISO/TS 14067:2013, PAS 2050:2011,ISO 14040:2006,and ISO 14044:2006. In addition, the inks used to print HTC packaging are of low volatility or use soy ink that complies with the standards set by the American Soybean Association. HTC aims to minimize the impact of its packaging materials on the environment.	None
(2) Whether the company establishes of environmental management systems appropriate to the nature of its industry?	v		HTC has passed ISO14001:2015 certification to set criteria for environmental management systems and ISO14064:2006 certification to report greenhouse gas emissions and removal. In addition, HTC received ISO 50001 certification in 2011, using its energy management system and energy saving measures to increase energy efficiency and reduce greenhouse gas emissions.	None
(3) Whether the company pays attention to the effects of climate change on its operations, investigation of greenhouse gas affairs and its establishment of a company strategy for energy conservation and carbon and greenhouse gas reduction?	v		Beginning in 2008, HTC has publically reported and verified its Greenhouse Gas Emissions (GHG) inventories and set GHG emissions reduction goals for all production facilities in Taiwan. In 2010, with the support of third-party agencies, HTC began publically reporting its GHG inventories for its Mainland China factories. Through the implementation of ISO50001:2011, energy management systems, and effective energy reduction measures, the company has been able to increase energy efficiency while reducing greenhouse gas emissions.	None
3. Protecting the public interest				
(1) Whether the company formulated its policies and procedures on management in accordance with relevant regulations and International Covenant on Civil and Political Rights?	V		HTC periodically holds labor coordination meetings, labor representatives selected by employees in attendance. These meetings focus on the discussion of labor rights. HTC's employee code of conduct defines employees' legal rights, interests and establishes appropriate compliance measures.	None
(2) Whether the company has established an approach and channel for employee appealing and whether it is handled properly?	V		HTC operates an internal system to receive employee complaints. This system includes a hotline, mailbox, and e-mail address dedicated to receiving employee complaints and suggestions as well as a regularly convened joint labor-management committee. HTC regularly canvasses employee opinions. Results are made available to executives and managers and used to measure changes in employee satisfaction and commitment.	None
(3) Whether the company provides a safe and healthy work environment for its employees and its provision of health and safety education to its employees on a regular basis?	V		To ensure the health and safety of our employees, HTC annually commissions a qualified laboratory to conduct on-site environmental tests. The results of all tests surpass standards set by related regulations. To strengthen safety and health awareness, HTC provides new employees with three hours of safety and health training. If hazardous chemicals are used in the operation, the hazardous chemicals labeling and general knowledge introduction course will be added; if the production machinery and equipment are used to operate, the operation equipment will be given a hazard notification training course. For employees on-the-job, we institute training on safety and health, Introduction of harmful materials.	None
(4) Whether the company has set up a system for the employees to communicate periodically and informed them through reasonable approaches about changes in operations that would cause a major impact?	V		A meeting for employee and employer is held every three months, and the meeting for the safety commission is held once every three months. All meeting minutes are posted on the company intranet (my HTC).	None

(Continued)

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

(Continued)

Item	Implementation Status: Yes	No	Summary	Reasons for discrepancy with the Corporate Social Responsibility Best Practice Principles for TWSE/ GTSM Listed Companies
3. Protecting the public interest				
(9) Whether the contract between the company and its major suppliers included clauses of termination and removal of the contract should the suppliers be involved in violation of its CSR policies that cause a major impact to the environment and society?	V		In December 2010, HTC joined the Responsible Business Alliance(RBA) (formerly "Electronics Industry Citizenship Coalition(EICC)"). Based on the RBA's Code of Conduct, HTC defined its own version called the "HTC Electronic Supplier Code of Conduct". Based on HTC's Supplier Code of Conduct and the governing laws applicable to the Supplier's manufacturing plant, the company is able to conduct supplier audits within the scope of corporate social responsibility, including working conditions, environment, safety & health, integrity & ethics and related management systems The purchasing contract does not define that HTC will Terminate the business contract if suppliers violate their Corporate Social Responsibility Policy and have significant impacts on the environment and society.	The purchasing contract does not define that HTC will Terminate the business contract if suppliers violate their Corporate Social Responsibility Policy and have significant impacts on the environment and society.
4. Enhancing information disclosure Status of disclosure on the company's website and MOPS of relevant and reliable information regarding corporate social responsibility.	V		HTC's commitment to corporate social responsibility is available on our global website (www.csr.htc.com), and HTC's CSR report is disclosed on MOPS.	None
5. For companies who follow the Listed Company Corporate Social Responsibility Code of Conduct as a guideline to setting its own Corporate Social Responsibility Code of Conduct, please describe any differences between operations and guidelines: HTC has yet to define a corporate social responsibility code of conduct.				
6. Any other important information that helps to understand corporate social responsibility practices HTC drafted its CSR report in 2014 and received the Large Enterprises, Electronic Industry II Golden Award for manufacturers in Taiwan Corporate Sustainability Awards of 2014. HTC invites the Taipei Blood Donation Center and Hsinchu Blood Donation Center to organize 8 blood drives every year. The number of blood donation is set at 1,000 bags per year. The HTC Fund has established three Character and English Institutes in Hualian, Yunlin, and Chiayi. In 2013, HTC plans to add another school in Taitung. Additionally, in 2012 HTC extended outside of the education realm, using the influence of Character Education to move into other areas, which is evident from the development of Character Towns and Character Hospitals.				
7. If the company's products or corporate social responsibility reports have been confirmed by relevant institutions, please indicate: Report follow the Global Reporting Initiative(GRI) written guidelines have passed AA1000 verification by an impartial third-party SGS and received the confirmation statement. 2018 CSR report will be prepared in accordance with the Global Reporting Initiative (GRI) Standard Core Option and plan to be confirmed by independent 3rd party to be in compliance with AA1000 assurance.				

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

Status of Implementation of Ethical Corporate Management Best Practices

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

(Continued)

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

(Continued)

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

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

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

1. All material information is published on the MOPS in accordance with regulations, and information relating to the Corporation's finances, business matters and corporate governance is also regularly updated to our corporate website in a timely manner.

2. Certification details of employees whose jobs are related to the release of the company's financial information

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

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

1. Statement on Internal Control

HTC Corporation

Internal Control System Statement

Date: 03/01/2019

The Company states the following with regard to its internal control system for 2018, based on the findings of a self-assessment:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguarding of asset security), reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations and bylaws.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" promulgated by the Financial Supervisory Commission (hereafter, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring activities. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has assessed the design and operating effectiveness of its internal control system according to the forementioned criteria.
5. Based on the findings of the assessment mentioned as of December 31, 2018, the Company believes that during the stated time period its internal control system (including its supervision and management of subsidiaries), encompassing internal controls for understanding of the degree of achievement of operational effectiveness and efficiency objectives, reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations and bylaws, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This statement has been passed by the Board of Directors Meeting of the Company held on March 1, 2019, in which all of the 6 attending directors affirmed the content of this Statement.

HTC Corporation 宏達國際電子股份有限公司　Chairman:　President:

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

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

(11) Material Resolutions of the 2018 Shareholders Meeting and Board of Directors Meetings during the most recent fiscal year and the current fiscal year up to the date of printing of this annual report.

1. Material Resolutions of the Shareholders Meeting

Date	Material resolutions	Implementation Status:
2018.06.26	1. Adoption of the Fiscal 2017 Business Report and Financial Statements.	The Fiscal 2017 Business Report and Financial Statements are submitted to the competent authority for reference and announcement in accordance with relevant regulations.
	2. Adoption of the Fiscal 2017 Deficit Compensation Proposal.	Adopted according to the resolution, no dividends were distributed.
	3. Discussion on the proposal to partially amend the Company's Article of Incorporation is submitted for discussion.	It was processed according to the revised Article of Incorporation.

2. Material Resolutions of the Board of Directors Meetings

Date	Matevial resolution
2018.03.26	1. Resolved for the Fiscal 2017 Deficit Compensation. 2. Resolved to set the subjects, date, time and venue for the 2018 Annual General Shareholders Meeting, as well as the time period and location for submission of shareholders' proposals and shareholders' nominations. 3. Appointment of the Company's internal audit officer. 4. Resolved for registering a change of share status of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.
2018.05.05	1. Resolved the Capital Injection into H.T.C. (B.V.I.) Corp. 2. Resolved the Issuance and Subscription of Employee Stock Options. 3. Resolved for the registering a change of share status of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.
2018.07.27	1. Resolved for registering a change of share status of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.
2018.11.05	1. Resolved for registering a change of share status of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.
2019.03.01	1. Resolved to set the subjects, date, time and venue for the 2019 Annual General Shareholders Meeting, as well as the time period and location for submission of shareholders' proposals and shareholders' nominations. 2. Appointment of the Company's internal audit officer. 3. Resolved for registering a change of share status of the Company's restricted employee shares and setting the record date for the reduction of paid-up capital.

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

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

Title	Name	Appointment Date	Effective Date	Type of the Change
Internal audit officer	Ken Wang	2018.04.01	2018.10.31	resignation

3. Information on CPA Professional Fees:

(1) Scale of information on CPA professional fees

Accounting Firm	Name of CPA	Audit Period	Note
Deloitte & Touche	Wen-Yea Shyu Kwan-Chung Lai	Years Ended December 31, 2018	

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

(2) Information on CPA professional fees

1. The amounts of both audit and non-audit fees as well as details of non-audit services are disclosed as follows:

Unit: NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					CPA's Audit Period	Note
			System Design	Company Registration	Human Resource	Others (Note)	Subtotal		
Deloitte & Touche	Wen-Yea Shyu Kwan-Chung Lai	6,500				600	600	Years Ended December 31, 2018	Transfer pricing report and international tax consultation

2. The company does not change its accounting firm.

3. Audit fees paid for the current year are lower than those for the previous fiscal year by 15 percent or more.

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

4. The Company Does Not Replace Its Certified Public Accountant Within the Last Two Fiscal Years or Any Subsequent Interim Period.

5. The Company's Chairperson, General Manager, or Any Managerial Officer in Charge of Finance or Accounting Matters Has Not in the Most Recent Year Held a Position at the Accounting Firm of Its Certified Public Accountant or at an Affiliated Enterprise of Such Accounting Firm.

6. Transfer of Equity Interests and/or Pledge of or Change in Equity Interests by a Director, Supervisor, Managerial Officer, or Shareholder with a Stake of More than 10 Percent During the Most Recent Fiscal Year and the Current Fiscal Year up to the Date of Printing of This Annual Report.

(1) Changes in shareholdings of Directors, Supervisors, Managers, and Major Shareholders

Unit: Shares

Title	Name	2018		2019.01.01 – 2019.04.23	
		Change in quantity of shareholding	Change in quantity of pledged shares	Change in quantity of shareholding	Change in quantity of pledged shares
Chairwoman & CEO	Cher Wang	0	0	0	0
Director	HT Cho	0	0	0	0
Director	Wen-Chi Chen	0	0	0	0
Director	David Bruce Yoffie	0	0	0	0
Independent Director	Chen-Kuo Lin	0	0	0	0
Independent Director	Josef Felder	0	0	200,000	0
Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	0	0	0	0
Supervisor	Huang-Chieh Chu	0	0	0	0
Chief Finance Officer	Peter Shen	0	0	0	0
General Counsel	Marcus Woo	0	0	0	0
Chief Technology Officer	WH Liu	0	0	0	0
Senior VP of Research & Development	Adrian Tung (Date of Appointment : July 16, 2018)	0	0	0	0
VP of Product & Strategy	Raymond Pao (Date of Appointment : July 16, 2018)	28,000	0	0	0
Chief Administrative Officer	Caleb OuYang (Date of Appointment : June 8, 2018)	0	0	0	0
Vice President	Hsiu Lai	6,800	0	0	0

(2) Stock transfer with related party:

None

(3) Stock Pledged with related party:

None

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

2019.04.23

Name (Note 1)	Shareholding		Shareholding under spouse and children of minor age		Shareholding under the title of third party		Top 10 shareholders who are related parties to each other (Note 2)		Note
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Way-Chih Investment Co., LTD. (Representative: Su-Lan Chiang)	43,819,290	5.35%	0	0.00%	0	0.00%	Way-Lien Technology Inc. Hon-Mou Investment Co., Ltd.	Same chairwoman Same chairwoman	
Cher Wang	32,272,427	3.94%	22,391,389	2.73%	0	0.00%	Wen-Chi Chen	Spouse	
Way-Lien Technology Inc. (Representative: Su-Lan Chiang)	30,688,231	3.75%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Hon-Mou Investment Co., Ltd.	Same chairwoman Same chairwoman	
Hon-Mou Investment Co., Ltd.	23,197,081	2.83%	0	0.00%	0	0.00%	Way-Chih Technology Inc. Way-Lien Technology Inc.	Same chairwoman Same chairwoman	
Wen-Chi Chen	22,391,389	2.73%	32,272,427	3.94%	0	0.00%	Cher Wang	Spouse	
VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS	10,944,221	1.34%	0	0.00%	0	0.00%	None	None	
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	10,788,079	1.32%	0	0.00%	0	0.00%	None	None	
iShares IV Public Limited Company	10,726,385	1.31%	0	0.00%	0	0.00%	None	None	
Kun-Chang Investment Co, Ltd.	9,322,824	1.14%	0	0.00%	0	0.00%	None	None	
ABP Pension Investment Fund under the custody of JPMorgan Chase Bank	8,972,000	1.10%	0	0.00%	0	0.00%	None	None	

Note 1: The top 10 shareholders shall all be listed; for institutional shareholders, the name of the entity and the name of its representative shall be listed separately.
Note 2: Mutual relationships of shareholders, including judicial and natural persons, shall be disclosed.

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

2019.03.31 Unit: thousands Shares; NTD thousands; %

Long-term investments (Note)	Investments by HTC Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
H.T.C. (B.V.I.) Corp.	1,476,202 thousands Shares	100%	0	0%	1,476,202 thousands Shares	100%
High Tech Computer Asia Pacific Pte. Ltd.	537,534 thousands Shares	100%	0	0%	537,534 thousands Shares	100%
HTC Investment Corporation	30,000 thousands Shares	100%	0	0%	30,000 thousands Shares	100%
PT. High Tech Computer Indonesia	2 thousands Shares	1%	186 thousands Shares	99%	188 thousands Shares	100%
HTC Holding Cooperatief U.A.	NTD13 thousands	0.01%	NTD6,037,833 thousands	99.99%	NTD6,037,846 thousands	100%
HTC Investment One (BVI) Corporation	333,733 thousands Shares	100%	0	0%	333,733 thousands Shares	100%
HTC Investment (BVI) Corp.	18,000 thousands Shares	100%	0	0%	18,000 thousands Shares	100%
HTC VIVE Holding (BVI) Corp.	7,000 thousands Shares	100%	0	0%	7,000 thousands Shares	100%
HTC VIVE Investment (BVI) Corp.	10,000 thousands Shares	100%	0	0%	10,000 thousands Shares	100%
DeepQ Holding (BVI) Corp.	7,000 thousands Shares	100%	0	0%	7,000 thousands Shares	100%
HTC Smartphone (BVI) Corp.	33 thousands Shares	100%	0	0%	33 thousands Shares	100%
HTC VR Content (BVI) Corp.	1,710 thousands Shares	100%	0	0%	1,710 thousands Shares	100%
HTC (Australia and New Zealand) Pty. Ltd.	0	0%	400 thousands Shares	100%	400 thousands Shares	100%
HTC Philippines Corporation	0	0%	859 thousands Shares	100%	859 thousands Shares	100%
HTC (Thailand) Limited	0	0%	10,000 thousands Shares	100%	10,000 thousands Shares	100%
HTC India Private Limited	0	0%	500 thousands Shares	100%	500 thousands Shares	100%
HTC Malaysia Sdn. Bhd.	0	0%	25 thousands Shares	100%	25 thousands Shares	100%
HTC HK, Limited	0	0%	1,044,376 thousands Shares	100%	1,044,376 thousands Shares	100%
S3 Graphics Co., Ltd.	0	0%	386,339 thousands Shares	100%	386,339 thousands Shares	100%
HTC Myanmar Company Limited	0	0%	100 thousands Shares	100%	100 thousands Shares	100%
HTC Netherlands B.V.	0	0%	143,882 thousands Shares	100%	143,882 thousands Shares	100%
HTC South Eastern Europe LLC.	0	0%	0.15 thousands Shares	100%	0.15 thousands Shares	100%
HTC EUROPE CO., LTD.	0	0%	83,502 thousands Shares	100%	83,502 thousands Shares	100%
HTC Brasil	0	0%	1,987 thousands Shares	100%	1,987 thousands Shares	100%
HTC Belgium BVBA/SPRL	0	0%	18.55 thousands Shares	100%	18.55 thousands Shares	100%
HTC NIPPON Corporation	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
HTC France Corporation	0	0%	11,000 thousands Shares	100%	11,000 thousands Shares	100%
HTC Nordic ApS	0	0%	80 thousands Shares	100%	80 thousands Shares	100%
HTC Italia SRL	0	0%	NTD51,056 thousands	100%	NTD51,056 thousands	100%
HTC Germany GmbH	0	0%	25 thousands Shares	100%	25 thousands Shares	100%
HTC Iberia, S.L.U.	0	0%	3 thousands Shares	100%	3 thousands Shares	100%

(Continued)

2019.03.31 Unit: thousands Shares; NTD thousands; %

	Investments by HTC Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Investments directly or indirectly controlled by directors, supervisors, and managers of HTC		Total investments	
Long-term investments (Note)	Shares/Investment Amount	%	Shares/Investment Amount	%	Shares/Investment Amount	%
HTC Poland sp. z o.o.	0	0%	4.7 thousands Shares	100%	4.7 thousands Shares	100%
HTC Communication Canada, Ltd.	0	0%	1,500 thousands Shares	100%	1,500 thousands Shares	100%
HTC Communication Sweden AB	0	0%	1,000 thousands Shares	100%	1,000 thousands Shares	100%
HTC Luxembourg S a r. l.	0	0%	12.5 thousands Shares	100%	12.5 thousands Shares	100%
HTC Middle East FZ-LLC	0	0%	3.5 thousands Shares	100%	3.5 thousands Shares	100%
HTC America Holding, Inc.	0	0%	371,617 thousands Shares	100%	371,617 thousands Shares	100%
HTC America, Inc.	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
One & Company Design, Inc.	0	0%	60 thousands Shares	100%	60 thousands Shares	100%
HTC America Innovation, Inc.	0	0%	1 thousands Shares	100%	1 thousands Shares	100%
HTC America Content Services, Inc.	0	0%	31 thousands Shares	100%	31 thousands Shares	100%
Dashwire, Inc.	0	0%	0.1 thousands Shares	100%	0.1 thousands Shares	100%
Inquisitive Minds, Inc.	0	0%	0.1 thousands Shares	100%	0.1 thousands Shares	100%
HTC VIVE TECH (BVI) Corp.	0	0%	70,000 thousands Shares	100%	70,000 thousands Shares	100%
HTC VIVE TECH Corp.	0	0%	100 thousands Shares	100%	100 thousands Shares	100%
HTC VIVE TECH (HK) Limited	0	0%	6,800 thousands Shares	100%	6,800 thousands Shares	100%
HTC VIVE TECH (UK) Limited	0	0%	6,000 thousands Shares	100%	6,000 thousands Shares	100%
DeepQ (BVI) Corp	0	0%	69,700 thousands Shares	100%	69,700 thousands Shares	100%
DeepQ Technology Corp.	0	0%	11,500 thousands Shares	100%	11,500 thousands Shares	100%
Uomo Vitruviano Corp.	0	0%	1,000 thousands Shares	100%	1,000 thousands Shares	100%
VRChat. Ca. Development Inc.	0	0%	0.1 thousands Shares	100%	0.1 thousands Shares	100%
High Tech Computer (SuZhou) Co., Ltd.	0	0%	USD100 thousands	100%	USD100 thousands	100%
HTC Corporation (Shanghai WGQ)	0	0%	USD1,500 thousands	100%	USD1,500 thousands	100%
HTC Electronics (Shanghai) Co., Ltd.	0	0%	USD132,909 thousands	100%	USD132,909 thousands	100%
HTC Communication Co., Ltd.	0	0%	USD127,500thousands	100%	USD127,500 thousands	100%
HTC Communication Technologies (SH)	0	0%	USD4,000 thousands	100%	USD4,000 thousands	100%
HTC Communication (BJ) Tech Co.	0	0%	RMB10,500 thousands	100%	RMB10,500 thousands	100%
HTC VIVE TECH (Beijing) Limited	0	0%	USD800 thousands	100%	USD800 thousands	100%
VRChat. Inc.	0	0%	66,548 thousands Shares	51.26%	66,548 thousands Shares	51.26%
HTC Vietnam Services One Member Limited Liability Company	0	0%	USD 200 thousands	100%	USD 200 thousands	100%
HTC Communication Solutions Mexico, S.A DE C.V.	0	0%	50 thousands Shares	100%	50 thousands Shares	100%
HTC Servicios DE Operacion Mexico, S.A DE C.V.	0	0%	50 thousands Shares	100%	50 thousands Shares	100%

Note: Investments accounted for using the equity method.

9. Corporate Social Responsibility

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

(1) Employee health and care

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

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

Noting that stress from work can easily make employees neglect the harm it has on health, the company set up the HTC affiliated medical room (employee clinic in short) in addition to its original health center. The clinic offers services for employees such as doctors' visits, prescription, health consultation, physical therapy, health check, examination, and x-ray check. With national insurance card and employee IDs, employees are entitled to benefits such as free registration and waiver from basic deductibles. This health service was also made available to employees' family, visitors, and partner companies, as a way of making health care accessible to those in need. For employees with mid-to-high level risk of health problems according to their health check results, the clinic will arrange doctors and nurses to assist with diagnosis and tracking, and will provide assistance through related necessary health courses, information for proper health management, and forming of normal personal living style for employees, as a way of building up employees' ability to self-manage their health and implementing a complete health care system. In 2018, the total number of employee clinic and health center using all services reached 11,790, health center 2,595, and participation in health promotion courses 14,741.

HTC has set a professional training room featuring a personal space with walled windows for employees to have a nice view of outdoor scenery while exercising. Professional trainers are regularly assigned as scheduled to provide guidance and consultation according to employees' needs. Workout courses include static yoga, Pilates, kinetic trendy dances, spinning, core muscle TRX, and boxing aerobic, etc. Employees can pick their courses based on their interest. In addition, the gym uses the HTC online form registration program to allow employees to choose courses based on their interests and needs. It can be used to allow employees to register on the computer and mobile phone to save on-site waiting time. In 2018, there were in total 37,186 & 1,050 counts of employees taking part in Taipei office workout courses and aerobic courses respectively.

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

Also, the 17-th floor in Taipei office with a height of 10 meters for sport purposes can also be used as a basketball court, badminton courts.

In addition to physical health, HTC also cares about employee's mental health and has partnered with Employee Assistance Center from Hsinchu City Life Line. Since start of partnership in February 2009, it offers every employee free mental health consultation for six times and phone consultation for unlimited times, all paid by the company. In 2018, it has served employees for 442 times in total, helping them solve issues with career, family, inter-personal relations, relationship, mental conditions, and stress.

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

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

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

To foster a workplace friendly to breast-feeding, it encourages working women to continue breast-feeding, with a total of 17 breast-feeding rooms set up to offer a warm and comfortable feeding environment, ultra-violet bottle disinfection closet, micro-computer hot water kettle, comfy sofa-chair, refrigerator for storing breast-feeding milk, and posters about breast-feeding babies, creating a comfy feeding environment that has a cumulative usage count reaching 25,273 times as of 2018. For women and pregnant employees, health seminars such as "Parent-child self-guided tour" and "Brest milk protect with Love" were also held that employees can feel about the company's touching care.

With the policy of dedication to sustainable environments, HTC is committed to deliver landscaped green spaces in both our Taipei and Taoyuan office buildings. In the green area of the Taipei office, more than 260 native trees and large arbor trees of Taiwan, such as eucalyptus, fragrant, pine, pine, and cherry trees; There are more than 113 species of native trees and large arbor trees in Taoyuan office, such as eucalyptus, Flame Gold-rain Tree, Formosan Sweet Gum, Green Maple, Taxodium distichum, Silk floss tree, Madagascar Almond, Pink Trumpet Tree, Golden shower, Autummn Maple Tree, Plumeria and Hinoki, and the environment diversity is enhanced by setting up ecological pools.

In order to improve the quality of work environment and green ecology of employees, plant pots that can purify indoor air quality and reduce carbon dioxide concentration in the office. Potted plants such as eucalyptus, Dracaena, Aglaonema and Peace Lily are placed in the Taipei office. In the Taoyuan office, potted plants such as Peperomia obtusifolia, Snake Plant, Lime pothos, and Philodendron. Different plants are added according to different festivals to enhance the atmosphere of different festivals and provide a fresh office environment for employees. The total number of potted plants in Taipei office is about 450 pots. In 2018, the amount of investment in the Taipei office reached NT$876,000, and the investment in the Taoyuan office reached NT$585,000 for horticultural maintenance such as indoor and outdoor planting and green beautification.

In order to improve the quality of the employees and the nearby resident, HTC is committed to the cleanliness of the building and its surrounding environment, regularly applying drugs every quarter to eliminate dengue fever and pest control, and spraying the environment indoors and outdoors with the ditch to reduce the density index of the vector mosquitoes. In 2018, the amount of investment in the Taipei office amounted to NT$19.3 million, and the investment in the Taoyuan office amounted to NT$25.48 million in environmental cleansing and sanitation (including indoor and outdoor planting, greening and other horticultural maintenance costs).

Taking into consideration the daily need of dorm-staying employees for space and comfort, available in the company are convenience store, washing and drying facilities, restaurant, and social lounge. In addition, HTC has taken active gesture in responding to the government's policy for a smoke-free workplace by adopting measures for control of smoke and implement prohibition of smoking in indoor areas of the company buildings.

For employees with the habit of smoking, the employees' clinic started offering out-patient service for smoke quitting since May of 2016, through which doctors, pharmacists, and health educators would offer treatments to help participating employees quit smoking. In 2018, the number of participating employees has reached 17.

In order to provide employees with a safe and friendly environment, an automatic external electric shock defibrillator (AED) is set up in the company, and the AED and CPR training is held regularly to enable emergency, and AED or CPR is used at the first time. The company has set up 12 AEDs in the Taipei office and 7 AEDs in the Taoyuan office.

(2) Safety and health

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

Environment Protection and Occupational Safety and Health Policy

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

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

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

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

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

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

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

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

An environment management system is also introduced and has passed certification by a third party outside. Through the development of environmental protection and occupational safety and health policies, to be implemented and educated within the plant. It requires that the policy would be the basis for setting corresponding goals, systematically carrying out tasks related to environment control, and then putting them into daily management practice.

(3) Supply chain partners

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

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

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

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

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

HTC supports the U.S. “Dodd-Frank Wall Street Reform and Consumer Protection Act” (H.R. 4173). We have also joined the joint mining task force setup by the RBA as well as the Global e-Sustainability Initiative (GeSI), and plan to participate in the RBA /GeSI conflict-free smelter program. At HTC, we require suppliers to conform with our conflict mineral purchasing policy to reduce the use of conflict minerals. HTC requires suppliers to sign a “Conflict Minerals Survey Form” and a “Conflict-Free Material Assurance Letter” as part of our supplier CSR management process.

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

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

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

(4) Environmental protection

4.1 Green products

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

4.1.1 Sustainable design

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

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

   The power supply used by some models has a standby power of 0.03W minimum energy consumption. Take HTC U12+ as an example, according to the simulation calculation, the annual power consumption is about 7.84kW·hr, including the use of standby power less than 0.03W, the charger reduces the energy consumption by about 4.1% compared to the charger with a standby power of 0.15W. For energy consumption during battery charging, we use the regulations of the US Department of Energy (DOE) and the California Energy Commission (CEC) to improve the efficiency of charging and reduce the loss of energy consumption after the battery is fully charged for the overall energy consumption be at a minimum.

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

Recyclability is under consideration in material selection, and products are disassembled and analyzed by third-party fair organizations. The recycling rate of U12+ can reach to 80.5%, the VIVE Pro material recovery rate can reach 75.2%, which greatly exceeds the EU's WEEE directive material recovery rate of 55 % for this product.

c) Reduction of hazardous substances

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

We built a green supply chain management platform as early as 2006 to assist R&D engineers in selecting green materials that meet international regulations and customer requirements in the product database. The source design is to introduce green materials to greatly enhance the reliability of green products. In terms of material selection, in response to international trends, HTC introduced halogen-free materials in 2009, requiring suppliers to simultaneously provide halogen-free reports, erecting halogen detectors, and halogen-free process auxiliary supplies. After that, in 2012, the quality announcement of "HTC new models are halogen-free" was proposed, and the pass rate of finished HSF sampling was 100%.

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

4.1.2 Sustainable packaging

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

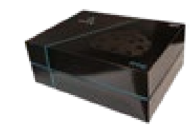
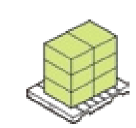
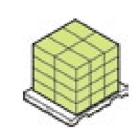
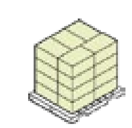
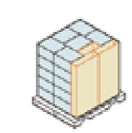
A full-body light-weight design was specially selected for use of the cellphone cover boxes by HTC. They are made from molding with 65% of sugar cane residues and 35% of bamboo pulp. Compared to regular boxes made of wood, these boxes made of sugar cane residues and rapid-growing bamboos could be 100%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

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

	2009 Hero BOX	2013/2014 M7 BOX/M8 BOX	2015 M9 BOX	2016 M10 BOX	2017 U11 BOX	2018 U12+ BOX
Photos						
Volume	183x89x60mm	160x160x28mm	160x160x28mm	180.5x150.5x33.5mm	202x165.5x34.5mm	
Weight	170g	95g	95g	111.2g	149.2g	
Carbon footprint from transportation (kg CO2 eq)	1.59	0.89	0.89	1.04	1.4	
ECO features	· Reduced volume of packaging by 50% · Printed using soy ink	· 98% of packaging boxes used recyclable papers · At least 75% of packaging materials used rapidly-growing materials (sugar cane & bamboo). · Printed using plant ink instead of ink	· Materials for the packaging boxes are rapidly-growing materials · Printed with single colors and decreased use of ink · For printing, did not use other varnish methods for processing · Decreased printing of upper label from 5C to 1C	· Materials for the packaging boxes are rapidly-growing materials · Decreased area of printing, decreased colors for the printing, and decreased use of ink · Did not use varnish plastics	· Materials is consist with current fast renewable plants. · Reduce the printing area, printing color. · Do not use glazing plastic.	

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

HTC use the recyclable materials and design the lightweight package for VR.

	2015 Rigid BOX	2016 Pizza Box	2017 Pizza BOX	2018 Pizza BOX
Photos				
Volume	574x420x212mm	415x295x181mm	532x344x185mm	418x338x188mm
Weight (g)	3000g	1800g	2250g	1200g
Number of transportation pallets	 6pcs	 24pcs	 20pcs	 30pcs
Carbon footprint from transportation (kg CO2 eq)	28.14	16.88	21.11	11.26
ECO features	· Used dual colors for printing and decreased use of ink	· Reduced 55% in volume · Reduced 40% in weight · Used dual colors for printing and decreased use of ink	· Reduce the ink use · Packaging sharing · Avoid New Packaging Materials	· Reduce the ink use · Design the lightweight package

4.1.3 Sustainable product

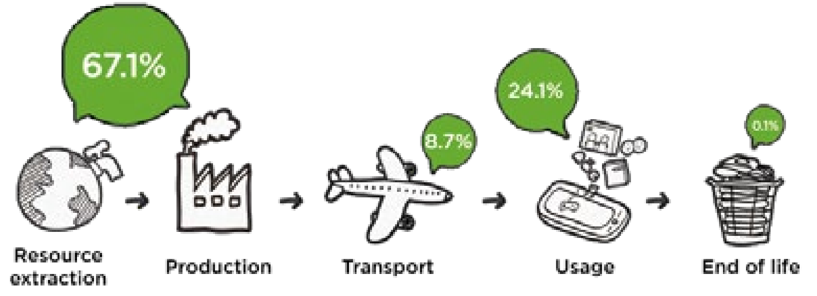
In response to crisis of global warming, HTC continues to look for ways to reduce impact and effect left on the environment during the process of manufacturing, production, and consumer use. Life-cycle thinking (LCT) is the concept we use behind our thinking. Starting from our R&D effort, the LCT concept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

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

International standard on carbon footprint for the products

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

Ratio of Carbon Footprint Life Cycle for HTC U11



Recorded footprint related programs and reports

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

a) In 2010, HTC participated in the "Guidance Program of Information Disclosure for Environmental Product" held by the Industrial Development Bureau, Ministry of Economic Affairs, and completed Environmental Product Declaration (EPD) in cooperation with 19 suppliers.
b) In 2011, HTC participated in the "Guidance Program of Low Carbon Product Design System", and completed guidance of carbon footprint analysis and low carbon design for 15 main suppliers.
c) In 2013, HTC cooperated with 11 suppliers to complete the ISO/TS14067 product carbon footprint examination.
d) In 2014, the main action scheme directly focused on providing detailed data of life cycle examination analysis to main suppliers for setting up the objective to reduce carbon and the action scheme.
e) In 2015, HTC cooperated with 8 suppliers to complete the ISO/TS14067 product carbon footprint examination again.
f) Completed analysis and checking of water footprint in its products in 2016.
g) In 2016, the supplier's GHG auto-investigation was initiated. In the first half of each year, suppliers were required to submit GHG inventory data; in 2018, the response rate reached 100%.
h) In 2018, HTC officially became a CDP member. In the first year, major key suppliers were invited to participate in the CDP Carbon Exposure Questionnaire, with a response rate of 48%.

4.2 Energy and climate change

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

We even did it through active supply chain management and strengthening green design of products to reduce use of hazardous and wrapping materials. Use the influence of positive support to help smart mobile device users around the globe and go toward more smarter and lower carbon tasks and mode of living step by step. Total greenhouse gas emissions by HTC were 24,438.5009 tons of CO2e in 2018. The majority of emitted gas were CO2. The cooling and air-conditioning systems in HTC's buildings all use environment friendly coolant R-134a to further preserve the ozonosphere.

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

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

4.3 Water resource management

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

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

Since dry process is used on the production line in our plant, there would be no industrial waste water generated and all water use would be from office and the dormitory where our colleagues live in. With a large area inside the plant used for greenery and tree planting, HTC aims to water those plants and greenery using the recycled and reprocessed water without increase in use of running water. Total amount of domestic waste water treated in 2018 was 162,052.00 tons, and the amount of recycling for the treated waste water was 53,593.00 tons.

Since implementation of the water-saving plan in 2014, the accumulated total amount of waste water recycled for watering and gardening plants reached 911,976 tons. The system was set up for recycling rainwater and condensed water from air conditioning. The water is then used in toilets and plants watering for effective water use.

4.4 Waste reduction

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

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

In addition, active promotion of concept of waste reduction through concrete measures like classification, recycling and management at the front end for employees to reduce waste generation as well as setting dedicated areas for general garbage, resource recycling, and kitchen waste to facilitate resource recycling and reuse, reduce amount of waste produced, and improve on the cleanliness of the environment. In 2018 the benefit of recycling reached NTD 3,891,147, waste recycling rate rose from 56.89% in 2011 to 81.02% in 2018 that would gradually reach the long term goal of 80% waste recycling rate. The recycled resources accounted for a total of about 1,771.4805 tons.

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

4.5 Green factory

In 2013, HTC's Taipei headquarters office received the green building mark from Ministry of the Interior and the golden LEED (Leadership in Energy & Environmental Design) certification from the U.S. Green Building Council (USGBC), offering its employees an excellent and comfortable low-carbon work environment. The requirement for energy-efficient design and use of high-efficiency equipment was implemented during project planning, design, and construction phases. Examples included the full use of LED lighting, ice storage system, energy-regenerating elevators, e-Tag smart parking management system, etc. The fully-integrated energy management system was utilized to attain a full real-time management and enhance efficiency of energy use. The total amount accumulated for reduction in carbon emission since inauguration of the building has reached 12,660 tons of CO_2e. Issues are discovered through cross referential comparisons between the data measured and data from currently-available database, and the analysis for improvement is then conducted in order to adopt a better plan on energy efficiency. Issues are categorized into design-oriented, operation-oriented, and management-oriented, which are then traced back to the original system for improvement and assessment on economic effectiveness in order to achieve continuous improvement on energy efficiency, with the EUI (Energy Usage Intensity) of only 102.91 KWH per meter square annually in 2018.

After simulation and analysis on energy, the design on energy efficiency contributed to 604,527.64 degree of reduction, and the total amount of reduction in carbon emission was 320 tons of CO_2e during 2018. We set up solar panels on top of our employee dormitory, where solar radiation could be converted to thermal energy for supply to water heating systems. The thermal energy would be stored in a tank for supply of hot water to showering equipment, effectively reducing our usage of natural gas. With the effective use of solar panels, the total saving of natural gas for 2018 accounted for was 96,371.40 degrees, which translates to a reduction of 182 metric tons of CO_2 emission.

(5) Social engagement: promotion of character education

5.1 HTC Foundation

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

Our vision:

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

Our mission:

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

Our accomplishments:

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

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

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

Summer institute for character education
HTC Foundation has been dedicated to the implementation of character education. For many years, it has been providing high quality, systematic, and diverse resource for education and training through the “rock education implementation program” to help schools across Taiwan to implement character education more effectively. To help schools cultivate a character-based campus culture, nurture those school practicing character education, promote academic and practical dialogue for the character education to strengthen the ability of the schools’ leadership teams in implementation, the foundation has been inviting Dr. Marvin Berkowitz, lecturing professor on character education from College of Education, University of Missouri at St. Louis, to give a lecture in the “Summer Institute for Character Education” in Taiwan since 2012. As of 2018, there have been 256 people in total from the leadership teams made up of school principals and administration members from 40 schools who have participated in the five-day intensive immersion training. There are five different campus schools in 2017-2018 from Bina Bangsa School in Indonesia.

(Continued)

This course has been taught in Missouri and other areas for 20 years. According to feedback from the 27 schools that participated in the last 5 years after the course, the course has been beneficial to both the participating teams and their members in core topics of the character education and nature of education or buildup of consensus for the leadership team. HTC Foundation will continue to hold this training course through its summer institute. It hopes that this course would help schools build up their own leadership teams for the character education on their campuses. Through collective efforts by the team members, the campusbased culture of character would be shaped to cultivate students’ growth and development in characters.

5.2 Other social engagement and actions

5.2.1 Blood donation

HTC regularly cooperates with the Hsinchu Blood Center to organize blood drives 8 times every year. Many “hot-blooded” employees have cultivated the habit of regular blood donation since 2006 so they always roll-up their sleeves when they hear that the blood donation bus is coming. The enthusiastic participation of HTC employees has led to the company being presented with a certificate of excellence for blood donation every year by the Taipei Blood Center and Hsinchu Blood Center. 144,000 c.c in total was accounted for the amount of blood donation from Taoyuan plant, and 121,250 c.c in total was accounted for the amount of blood donation from Taipei headquarter for the year of 2018.

5.2.2 HTC child support group

The HTC Child Support Group was founded in 2006 as an employee initiative. The club organizes donation drives with all proceeds going to the Taiwan Fund for Children and Families to help sponsor children in need. In 2018 the total sponsored a total of 66 children. The sponsored children included 58 children from Taiwan and 8 children from abroad. The children we’ve sponsored in foreign countries included Guatemala, Indonesia, the Philippines, Senegal, Sri Lanka, Kyrgyz and Paraguay.

5.2.3 Charity program

Christmas Thanksgiving and Charity Sale in 2018
“Light up the dream to grow up with him” - We use love, charity donations to protect the weak children in 2018 Christmas Concert. Many children lost their parents when they were young because of family problems, illnesses or accidents. There are also many children who become vulnerable children of Intensive-concern because of their parents’ deviation behavior. When these children are helpless and face the future, and even want to give up on themselves, there are many groups to accompany them with love, to help them face difficult challenges, to get rid of the pain, and to let each child see his precious value. In the 2018 Christmas concert, HTC colleagues supported the “Taipei Orphan Welfare Foundation” and “Taitung Joy Class” with practical actions to help these children and families!

5

CAPITAL AND SHARES

CAPITAL AND SHARES

1. Capital and Shares

(1) Capitalization:

2019.04.23 Unit: Share; NT$$

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

(Continued)

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

(Continued)

		Authorized		Paid-in		Remark		
Month/ Year	Price	Shares	Amount	Shares	Amount	Sources of capital	Capital increase by assets other than cash	Other
05/2015	10	1,000,000,000	10,000,000,000	827,988,925	8,279,889,250	Capital reduction: Cancellation of Restricted Employee shares	None	Note 28
08/2015	10	1,000,000,000	10,000,000,000	828,272,225	8,282,722,250	Issuance of Restricted Employee shares	None	Note 26
11/2015	10	1,000,000,000	10,000,000,000	827,863,525	8,278,635,250	Capital reduction: Cancellation of Restricted Employee shares	None	Note 26
01/2016	10	1,000,000,000	10,000,000,000	831,869,525	8,318,695,250	Issuance of Restricted Employee shares	None	Note 28
03/2016	10	1,000,000,000	10,000,000,000	827,641,465	8,276,414,650	Capital reduction: Cancellation of Treasury Shares and Restricted Employee shares	None	Note 26 Note 28
05/2016	10	1,000,000,000	10,000,000,000	827,419,055	8,274,190,550	Capital reduction: Cancellation of Restricted Employee shares	None	Note 26
08/2016	10	1,000,000,000	10,000,000,000	830,076,055	8,300,760,550	Issuance of Restricted Employee shares	None	Note 28
09/2016	10	1,000,000,000	10,000,000,000	822,849,885	8,228,498,850	Capital reduction: Cancellation of Treasury Shares and Restricted Employee shares	None	Note 26 Note 28
11/2016	10	1,000,000,000	10,000,000,000	822,008,655	8,220,086,550	Capital reduction: Cancellation of Restricted Employee shares	None	Note 29
03/2017	10	1,000,000,000	10,000,000,000	821,904,155	8,219,041,550	Capital reduction: Cancellation of Restricted Employee shares	None	Note 26 Note 28
08/2017	10	1,000,000,000	10,000,000,000	821,527,605	8,215,276,050	Capital reduction: Cancellation of Restricted Employee shares	None	Note 26 Note 28
11/2017	10	1,000,000,000	10,000,000,000	820,816,055	8,208,160,550	Capital reduction: Cancellation of Restricted Employee shares	None	Note 26 Note 28
04/2018	10	1,000,000,000	10,000,000,000	820,809,855	8,208,098,550	Capital reduction: Cancellation of Restricted Employee shares and Issuance new shares of Employee Stock Ownership Plans	None	Note 26 Note 28

(Continued)

		Authorized		Paid-in		Remark		
Month/ Year	Price	Shares	Amount	Shares	Amount	Sources of capital	Capital increase by assets other than cash	Other
07/2018	10	1,000,000,000	10,000,000,000	819,261,705	8,192,617,050	Capital reduction: Cancellation of Restricted Employee shares and Issuance new shares of Employee Stock Ownership Plans	None	Note 26 Note 28 Note 30
08/2018	10	1,000,000,000	10,000,000,000	819,079,155	8,190,791,550	Capital reduction: Cancellation of Restricted Employee shares	None	Note 26 Note 28
11/2018	10	1,000,000,000	10,000,000,000	818,813,455	8,188,134,550	Capital reduction: Cancellation of Restricted Employee shares	None	Note 26 Note 28
03/2019	10	1,000,000,000	10,000,000,000	818,811,855	8,188,118,550	Capital reduction: Cancellation of Restricted Employee shares	None	Note 28

Note 1: Approval Document No.:The 23 July 1998 Letter No. Taiwan-Finance-Securities-I-59976 of the Securities and Futures Commission (SFC), Ministry of Finance.

Note 2: Approval Document No.:The 21 July 2000 Letter No. Taiwan-Finance-Securities-I-59899 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 3 Approval Document No.:The 13 April 2001 Letter No. Taiwan-Finance-Securities-I-118901 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 4: Approval Document No.:The 30 April 2002 Letter No. Taiwan-Finance-Securities-I-119837 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 5: Approval Document No.:The 28 July 2003 Letter No. Taiwan-Finance-Securities-I-0920133959 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 6: Approval Document No.:The 06 November 2003 Letter No.Taiwan-Finance-Securities-I-0920146220 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 7: Approval Document No.:The 16 January 2004 Letter No. Taiwan-Finance-Securities-I-0920162653 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 8: Approval Document No.:The 09 July 2004 Letter No. Finance-Supervisory-Securities-I-0930130457 of the Securities and Futures Bureau of the Financial Supervisory Commission Executive Yuan

Note 9: Approval Document No.:The 14 January 2003 Letter No. Taiwan-Finance-Securities-I-09100169047 of the Securities and Futures Commission (SFC), Ministry of Finance

Note 10: Approval Document No.:The 12 July 2005 Letter No. Financial-Supervisory-Securities-I-0940128133 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 11: Approval Document No.:The 06 July 2006 Letter No. Financial-Supervisory-Securities-I-0950128723 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 12: Approval Document No.:The 25 January 2007 Letter No. Financial-Supervisory-Securities-III0960004848 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 13: Approval Document No.:The 12 July 2007 Letter No. Financial-Supervisory-Securities-I-0960036213 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 14: Approval Document No.:The 25 June 2008 Letter No. Financial-Supervisory-Securities-I-0970031749 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 15: Approval Document No.:The 16 December 2008 Letter No. Financial-Supervisory-Securities-III0970068202 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 16: Approval Document No.:The 9 July 2009 Letter No. Financial-Supervisory-Securities-0980034309 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 17: Approval Document No.:The 8 October 2009 Letter No. Financial-Supervisory-Securities-0980053814 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 18: Approval Document No.:The 9 March 2010 Letter No. Financial-Supervisory-Securities-0990010834 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 19: Approval Document No.:The 2 July 2010 Letter No. Financial-Supervisory-Securities-0990034358 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 20: Approval Document No.:The 30 June 2011 Letter No. Financial-Supervisory-Securities-1000030339 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 21: Approval Document No.:The 8 November 2011 Letter No. Financial-Supervisory-Securities-1000054193 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 22: Approval Document No.:The 23 September 2010 Letter No. Financial-Supervisory-Securities-09900541928 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 23: Approval Document No.:The 11 October 2013 Letter No. Financial-Supervisory-Securities-1020041961 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 24: Approval Document No.:The 12 January 2011 Letter No. Financial-Supervisory-Securities-1000000751 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 25: Approval Document No.:The 8 November 2011 Letter No. Financial-Supervisory-Securities-1000054193 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 26: Approval Document No.:The 19 August 2014 Letter No. Financial-Supervisory-Securities-1030031492 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 27: Approval Document No.:The 23 February 2012 Letter No. Financial-Supervisory-Securities-1010006478 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 28: Approval Document No.:The 19 August 2015 Letter No. Financial-Supervisory-Securities-1040031777 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 29: Approval Document No.: The 22 July 2016 Letter No. Financial-Supervisory-Securities-1050029232 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

Note 30: Approval Document No.: The 19 August 2014 Letter No. Financial-Supervisory-Securities-10300314921 of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan

2019.04.23 Unit: Share

Type of stock	Authorized Capital			Remark
	Outstanding shares	Unissued Shares	Total	
Common Stock	818,811,855	181,188,145	1,000,000,000	Of our authorized capital, 80,000,000 shares are reserved for the exercise of stock warrants, preferred shares with warrants, or corporate bonds with warrants

(2) Shareholder structure:

2019.04.23

Structure	Shareholder						Total
	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Treasury stock (Note)	
Number of shareholders	1	15	399	517	130,859	0	131,791
Shareholding	14	6,081,484	147,014,621	122,174,959	543,540,777	0	818,811,855
Holding percentage	0.00%	0.74%	17.95%	14.92%	66.39%	0.00%	100.00%

(3) Distribution of ownership:

2019.04.23 Each share has a par value of NT$10

Shareholder Ownership (Unit : share)	Number of Shareholders	Ownership	Ownership (%)
1 - 999	36,211	2,473,402	0.30%
1,000 - 5,000	78,557	152,434,262	18.62%
5,001 - 10,000	9,083	71,481,113	8.73%
10,001 - 15,000	2,682	34,500,382	4.21%
15,001 - 20,000	1,697	31,507,636	3.85%
20,001 - 30,000	1,334	34,178,864	4.17%
30,001 - 40,000	671	24,182,723	2.95%
40,001 - 50,000	415	19,379,719	2.37%
50,001 - 100,000	666	46,811,642	5.72%
100,001 - 200,000	259	36,004,969	4.40%
200,001 - 400,000	104	29,624,245	3.62%
400,001 - 600,000	33	15,970,921	1.95%
600,001- 800,000	12	8,765,297	1.07%
800,001 - 1,000,000	14	12,434,018	1.52%
Over 1,000,001	53	299,062,662	36.52%
Total	131,791	818,811,855	100.00%

(4) List of principal shareholders:

2019.04.23 Each share has a par value of NT$10

Name of principal shareholders	Shares	
	Current Shareholding	Percentage
Way-Chih Investment Co., LTD.	43,819,290	5.35%
Cher Wang	32,272,427	3.94%
Way-Lien Technology Inc.	30,688,231	3.75%
Hon-Mou Investment Co., Ltd.	23,197,081	2.83%
Wen-Chi Chen	22,391,389	2.73%
VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS	10,944,221	1.34%
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	10,788,079	1.32%
iShares IV Public Limited Company	10,726,385	1.31%
Kun-Chang Investment Co, Ltd.	9,322,824	1.14%
ABP Pension Investment Fund under the custody of JPMorgan Chase Bank	8,972,000	1.10%

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

Item \ Year			2017	2018	2019.01.01-2019.03.31
Market price per share	Highest market price		82.1	76.8	42.55
	Lowest market price		61.6	30.05	32.35
	Average market price		72.16	52.3	36.67
Net worth per share (Note)	Before distribution		41.05	55.16	-
	After distribution		41.05	Note	-
Earnings (loss) per share	Weighted average shares (thousand shares)		821,593	819,629	-
	Earnings (loss) per share		(20.58)	14.72	-
Dividends per share	Cash dividends		-	0.38 (Note)	
	Stock dividends	Dividends from retained earnings	-	-	
		Dividends from capital surplus	-	-	
	Accumulated undistributed dividend		-	-	
Return on investment	Price/Earnings ration		NA	3.55	
	Price/Dividend ratio		NA	137.63 (Note)	
	Cash dividend yield		0%	0.73% (Note)	

Note : Pending on the approval of the 2019 Shareholders Meeting.

(6) Dividend policy:

1. Dividend policy:

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

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

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

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

For the 2018 earnings distribution, it is proposed that the cash dividend of NTD 0.38 per common share, amount of cash dividend is NTD311,148,505. After the shareholders' approval of this resolution, will set the ex-dividend date and payment day.

3. There is no material change in dividend policy.

(7) Impact of the stock dividend proposal on operational performance and earnings per share:

HTC will not distribute stock dividends at the 2019 Annual Shareholders' Meeting.

(8) Compensation of Employees, Directors, and Supervisors

1. Percentage and scope of employee, Director and Supervisor compensation as stipulated in the Company's Article of Incorporation.

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

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

The basis for assessing the compensation of employees and directors is based on relevant laws, articles of incorporation and past experience. If the actual amounts differ from the estimated number, the differences are recorded and adjusted in the following (financial reporting) year as changes in accounting estimate.

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

Board of Directors of the Company resolved on May 10, 2019:

(1) The compensation amount of the employee distribution in cash is NTD$456,986,817, and not any distribution in stocks. There are not any discrepancy between that amount and the estimated.

(2) There are not any employee compensation distributed in stocks, and no percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee compensation.

4. The actual distribution of employee, director, and supervisor compensation for 2017

No distribute for employee, director, and supervisor compensation in 2017.

(9) Share repurchases:

None

2. Issuance of Corporate Bonds

None

3. Status of Preferred Shares

None

4. Global Depository Receipts

2019.04.23

Issue Date			2003.11.19
Issuance and Listing			Luxembourg
Total amount			USD 105,182,100.60
Offering price per GDR			USD 15.4235
Units issued			9,015,121 units (note)
Underlying securities			Cash offering and common shares from selling shareholders
Common shares represented			36,060,497 shares (note)
Rights and obligations of GDR holders			Same as that of common share holders
Trustee			Not applicable
Depositary bank			Citibank, N.A.–New York
Custodian bank			Citibank Taiwan Limited
GDRS outstanding			584,848 units
Apportionment of expenses for issuance and maintenance			All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of GDRS were borne by HTC and the selling shareholders, while maintenance expenses such as annual listing fees and accounting fees were borne by HTC.
Terms and conditions in the deposit agreement and custody agreement			See deposit agreement and custody agreement for details
Closing price per GDR	2018	High	USD 10.22
		Low	USD 3.91
		Average	USD 7.03
	2019.01.01~ 2019.04.23	High	USD 5.77
		Low	USD 3.00
		Average	USD 4.86

Note: The total number of units issued includes the 6,819,600 units originally issued (representing 27,278,400 shares of common stock) plus additional units issued in stock dividends in past years on common shares underlying the overseas depositary receipts, as itemized below.
18 August 2004: dividends issued on common shares underlying the overseas depositary receipts in the amount of 216,088 additional units (representing 864,352 common shares)
12 August 2005: dividends issued on common shares underlying the overseas depositary receipts in the amount of 70,290 additional units (representing 281,161 common shares)
1 August 2006: dividends issued on common shares underlying the overseas depositary receipts in the amount of 218,776 additional units (representing 875,107 common shares)
20 August 2007: dividends issued on common shares underlying the overseas depositary receipts in the amount of 508,556 additional units (representing 2,034,224 common shares)
21 July 2008: dividends issued on common shares underlying the overseas depositary receipts in the amount of 488,656 additional units (representing 1,954,626 common shares)
9 August 2009: dividends issued on common shares underlying the overseas depositary receipts in the amount of 170,996 additional units (representing 683,985 common shares)
3 August 2010: dividends issued on common shares underlying the overseas depositary receipts in the amount of 311,805 additional units (representing 1,247,223 common shares)
26 July 2011: dividends issued on common shares underlying the overseas depositary receipts in the amount of 210,354 additional units (representing 841,419 common shares)

5. Employee Share Warrants

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

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

2019.04.20 / Unit: share and NT$

Employee Stock Options Granted	2nd Grant	3rd Grant	4th Grant
Approval Date	September 9, 2013	August 19, 2014	August 19, 2014
Issue (Grant) Date	November 11, 2013	October 31, 2014	August 11, 2015
Number of Options Granted	15,000,000	19,000,000	1,000,000
Percentage of Shares Exercisable to Outstanding Common Shares	1.83%	2.32%	0.12%
Option Duration	The duration of the stock warrants is 7 years. The stock warrants and rights and interests therein may not be transferred, pledged, given to others, or disposed in any other manner, except by succession.	The duration of the stock warrants is 10 years. The stock warrants and rights and interests therein may not be transferred, pledged, given to others, or disposed in any other manner, except by succession.	The duration of the stock warrants is 10 years. The stock warrants and rights and interests therein may not be transferred, pledged, given to others, or disposed in any other manner, except by succession.
Source of Option Shares	New Common Share	New Common Share	New Common Share
Vesting Schedule(%)	After 2 full years have elapsed from the time the stock warrant holder is allocated the employee stock warrants, the warrant holder may exercise the share purchase rights according to the schedule set out below. Percentage of share purchase rights that may be exercised according to the time elapsed since the allocation of the stock warrants (cumulative) Two full years have elapsed: 60% Three full years have elapsed: 100%	After 2 full years have elapsed from the time the stock warrant holder is allocated the employee stock warrants, the warrant holder may exercise the share purchase rights according to the schedule set out below. Percentage of share purchase rights that may be exercised according to the time elapsed since the allocation of the stock warrants (cumulative) Two full years have elapsed: 60% Three full years have elapsed: 100%	After 2 full years have elapsed from the time the stock warrant holder is allocated the employee stock warrants, the warrant holder may exercise the share purchase rights according to the schedule set out below. Percentage of share purchase rights that may be exercised according to the time elapsed since the allocation of the stock warrants (cumulative) Two full years have elapsed: 60% Three full years have elapsed: 100%
Shares Exercised	0	0	159,000
Value of Shares Exercised	NTD 0	NTD 0	NTD 8,665,500
Shares Unexercised	2,804,500 shares	3,739,000 shares	170,000 shares
Adjusted Exercise Price Per Share	NTD149	NTD134.5	NTD54.5
Percentage of Shares Unexercised to Outstanding Common Shares (Note 1)	0.34%	0.46%	0.02%
Impact to Shareholders' Equity	Dilution to shareholder's equity is limited	Dilution to shareholder's equity is limited	Dilution to shareholder's equity is limited

Note 1: The information is calculated based on the issued shares, 818,811,855.

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

2019.04.23 / Unit: share and NT$

	Title	Name	Number of Option Acquired	Number of Op-tion Acquired / Number of Op-tion Issued (Note1)	Exercised				Unexercised			
					Number of Option	Exercise Price per Shares (NTD)	Option amount	Number of Option /Number of Option Issued (Note1)	Number of Option	Unexercised Price per Shares (NTD) (Note 3)	Option amount	Number of Option /Number of Option Issued (Note 1)
Managers	General Counsel	Marcus Woo	810,000 shares	0.10%	0 shares	NTD 0	NTD 0	0%	810,000 shares	NTD 149, NTD134.5 and NTD 54.5	NTD 108,285,000	0.10%
	Chief Technology Officer	WH Liu										
	Senior Vice President of R&D	Adrian Tung										
	Vice President of Strategy	Raymond Pao										
	Associate Vice President	Hsiu Lai										
Employee (Note 2)	Andre Loenne (Note 4)		1,993,000 shares	0.24%	135,000 shares	NTD 54.5	NTD 7,357,500	0.02%	1,858,000 shares	NTD 149, NTD 134.5 and NTD 54.5	NTD 231,472,500	0.23%
	Andrey Kormiltsev											
	Charles Chang (Note 5)											
	CS Wang (Note 6)											
	Drew Bamford											
	Faisal Siddiqui (Note 7)											
	Johnson Chiang											
	Madeline Chen											
	Morris.CY Yang (Note 8)											
	Steve Wang											

Note 1: The information is calculated based on the issued shares, 818,811,855.
Note 2: The top 10 employees are granted employee stock options are without managerial position.
Note 3: The unexercised price per shares is calculated by the unexercised option amount to unexercised number of options.
Note 4: Andre Loenne resigned on 1 Jul. 2018.
Note 5: Charles Chang resigned on 1 Mar. 2018.
Note 6: CS Wang resigned on 1 Jun. 2018.
Note 7: Faisal Siddiqui resigned on 12 Jul. 2018.
Note 8: Morris.CY Yang resigned on 16 Aug. 2018.

(Continued)

6. New Restricted Employee Shares

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

2019.04.23/Unit: Share and NT$

Restricted Employee Shares Granted	1st Restricted employee shares	2nd Restricted employee shares	3rd Restricted employee shares	4rd Restricted employee shares
Approval Date	2014.08.19	2014.08.19	2015.08.19	2015.08.19
Issue (Vest) Date	2014.11.02	2015.08.10	2015.12.23	2016.07.18
Number of Restricted Employee Shares Issued	4,600,000 shares	400,000 shares	4,006,000 shares	2,657,000 shares
Issued Price per Share	NTD 0	NTD 0	NTD 0	NTD 0
Percentage of Shares Exercisable to Outstanding Common Shares	0.56%	0.05%	0.49%	0.32%
Vesting Conditions for Exercise of Restricted Employee Shares	1. An employee who remains employed at HTC after 1 year has elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the cap-ital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfacto-ry," will be eligible for vesting of an installment of 30% of the shares. 2. An employee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satis-factory," will be eligible for vesting of an installment of 30% of the shares. 3. An employee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satis-factory," will be eligible for vesting of an installment of 40% of the shares.	1. An employee who remains employed at HTC after 1 year has elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the cap-ital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfacto-ry," will be eligible for vesting of an installment of 30% of the shares. 2. An employee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satis-factory," will be eligible for vesting of an installment of 30% of the shares. 3. An employee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satis-factory," will be eligible for vesting of an installment of 40% of the shares.	1. An employee who remains employed at HTC after 1 year has elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the cap-ital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satisfacto-ry," will be eligible for vesting of an installment of 30% of the shares. 2. An employee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satis-factory," will be eligible for vesting of an installment of 30% of the shares. 3. An employee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and who in the then-current fiscal year has a performance rating equal to or higher than "Satis-factory," will be eligible for vesting of an installment of 40% of the shares.	1. An awardee who remains employed at HTC after 1 year has elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the cap-ital increase), and provided that the consolidated annual financial statement for the most recent fiscal year, based on the vesting date, states a net profit after tax, will be eligible for vesting of an installment of 25% of the shares. 2. An awardee who remains employed at HTC after 2 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and provided that the consolidated an-nual financial statement for the most recent fiscal year, based on the vesting date, states a net profit after tax, and that the profit has grown by 10% or more as compared to the consolidated net profit after tax in the most recently preceding profit-earning fiscal year, will be eligible for vesting of an installment of 25% of the shares. 3. An awardee who remains employed at HTC after 3 years have elapsed from the time of the award of the new restricted employee shares (i.e., the record date of the capital increase), and provided that the consolidated an-nual financial statement for the most recent fiscal year, based on the vesting date, states a net profit after tax, and that the profit has grown by 10% or more as compared to the consolidated net profit after tax in the most recently preceding profit-earning fiscal year, will be eligible for vesting of an installment of 25% of the shares. 4. An awardee who remains employed at HTC after 4 years have elapsed from the time of the award of the new re-stricted employee shares (i.e., the record date of the cap-ital increase), and provided that the consolidated annual financial statement for the most recent fiscal year, based on the vesting date, states a net profit after tax, and that the profit has grown by 10% or more as compared to the consolidated net profit after tax in the most recently pre-ceding profit-earning fiscal year, will be eligible for vest-ing of an installment of 25% of the shares.
Restrictions to the Rights of New Restricted Employee Shares	The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associ-ated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows: 1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, new restricted employee shares. 2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash dividends and cash rights issue subscriptions so obtained furthermore need not be placed in trust and shall not be restricted by the vesting period.	The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associ-ated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows: 1. During the vesting period, an employee may not sell, pledge, transfer, give to another person, create any en-cumbrance on, or otherwise dispose of, new restricted employee shares. 2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash div-idends and cash rights issue subscriptions so obtained fur-thermore need not be placed in trust and shall not be re-stricted by the vesting period.	The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows: 1. During the vesting period, an employee may not sell, pledge, transfer, give to an-other person, create any en-cumbrance on, or otherwise dispose of, new restricted employee shares. 2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash div-idends and cash rights issue subscriptions so obtained fur-thermore need not be placed in trust and shall not be re-stricted by the vesting period.	The shares to be issued and awarded to employees in the current issue are common shares. The rights and obligations associated with the shares are the same as those of other issued and outstanding common stock, except as specified as follows: 1. During the vesting period, an employee may not sell, pledge, transfer, give to an-other person, create any en-cumbrance on, or otherwise dispose of, new restricted employee shares. 2. During the vesting period, the new restricted employee shares can still participate in stock and cash dividends and subscription to cash rights issues. The stock and cash div-idends and cash rights issue subscriptions so obtained fur-thermore need not be placed in trust and shall not be re-stricted by the vesting period.

(Continued)

Restricted Employee Shares Granted	1st Restricted employee shares	2nd Restricted employee shares	3rd Restricted employee shares	4th Restricted employee shares
Custody of Restricted Employee Shares	1. After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a cus-todian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares. 2. During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of in-structions for the delivery, utilization, or disposition of the assets in trust.	1. After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a cus-todian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares. 2. During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, signing, amendment, extension, rescission, and termination of the trust agreement, and giving of in-structions for the delivery, utilization, or disposition of the assets in trust.	1. After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be depos-ited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a cus-todian bank. Further, before the vesting conditions have been met, the employee may not for any reason or in any manner request that the trustee return the new restricted employee shares. 2. During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, sign-ing, amendment, extension, rescission, and termination of the trust agreement, and giving of in-structions for the delivery, utilization, or disposition of the assets in trust.	1. After new restricted employee shares are issued, if the employee to whom shares have been awarded is an ROC national, the shares must immediately be deposited in trust. If the employee to whom shares are awarded is a foreign national, the shares must be placed in custody with a cus-todian bank. Further, before the vest-ing conditions have been met, the employee may not for any reason or in any man-ner request that the trustee return the new restricted employee shares. 2. During the period in which the new restricted employee shares are placed in trust, HTC shall have full discretion to act as agent for the employee to conduct with the share trust institution matters including, without limitation, the negotiation, sign-ing, amendment, extension, rescission, and termination of the trust agreement, and giving of in-structions for the delivery, utilization, or disposition of the assets in trust.
Procedures for Non-Compliance of the Conditions	1. If an employee voluntarily resigns or his or her employ-ment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation. 2. Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduc-tion during the vesting period: HTC will withdraw the full amount without compensation.	1. If an employee voluntarily resigns or his or her employ-ment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation. 2. Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduc-tion during the vesting period: HTC will withdraw the full amount without compensation.	1. If an employee voluntarily resigns or his or her employ-ment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation. 2. Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.	1. If an employee voluntarily resigns or his or her employ-ment is terminated or severed, then the vesting rights of any shares previously awarded to the employee but not yet vested shall be lost from the date of occurrence of the fact. HTC will withdraw and cancel the full number of the shares without compensation. 2. Any cash or property other than cash received as a return of share capital due to HTC having undergone a capital reduction during the vesting period: HTC will withdraw the full amount without compensation.
Withdrawal of New Re-stricted Employee Shares	1,346,470 shares	57,700 shares	1,544,600 shares	2,339,500 shares
Unrestricted New Re-stricted Employee Shares	3,252,730 shares	342,300 shares	2,450,980 shares	0 shares
Restricted New Restricted Employee Shares	800 shares	0 shares	10,420 shares	317,500 shares
Percentage of Shares Unrestricted to Outstand-ing Common Shares	0.0001%	0%	0.001%	0.04%
Impact on Shareholders' Equity	Dilution to shareholder's equity is limited	Dilution to shareholder's equity is limited	Dilution to shareholder's equity is limited	Dilution to shareholder's equity is limited

Note: The information is calculated based on the issued shares, 818,811,855.

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

2019.04.23/Unit: Share and NT$$

	Title	Name	Number of Restricted Employee Shares Acquired	Number of Restricted Employee Shares Acquired / Outstanding Common Shares (Note1)	Unrestricted: Number of Shares Restricted	Unrestricted: Issued Price	Unrestricted: Issued Amount	Unrestricted: Restricted Employee Shares amount (Note1)	Restricted: Number of Shares Restricted	Restricted: Issued Price	Restricted: Issued Amount	Restricted: Restricted Employee Shares amount (Note1)
Manager	General Counsel	Marcus Woo	493,000 shares	0.06%	182,000 shares	NTD $0	NTD $0	0.02%	155,500 shares	NTD $0	NTD $0	0.02%
	Chief Technology Officer	WH Liu										
	Senior Vice President of R&D	Adrian Tung										
	Vice President of Strategy	Raymond Pao										
	Associate Vice President	Hsiu Lai										
Employee (Note 2)	Steve Wang		863,000 shares	0.11%	438,000 shares	NTD $0	NTD $0	0.05%	141,500 shares	NTD $0	NTD $0	0.02%
	Madeline Chen											
	Frank Sun											
	Morris.CY Yang (Note 3)											
	Sbin Lin (Note 4)											
	Johnson Chiang											
	Singer Hsieh											
	CS Wang (Note 5)											
	Longterng Wu											
	Frances Wang (Note 6)											
	HC Wang											

Note 1: The information is calculated based on the issued shares, 818,811,855.
Note 2: The top 10 employees granted restricted employee shares are without managerial position.
Note 3: Morris.CY Yang resigned on 16 Aug. 2018.
Note 4: Sbin Lin resigned on 9 Feb. 2018.
Note 5: CS Wang resigned on 1 Jun. 2018.
Note 6: Frances Wang resigned on 31 Jan. 2018.

7. Issuance of New Shares for Mergers and Acquisitions

None

8. Implementation of the Company's capital allocation Plans

Up until the quarter prior to the publication of this annual report, the Company has not completed previous issuance or private placement of securities, or had any project completed in the last three years where project benefits have not become apparent.

6

FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

FINANCIAL STATUS, OPERATING RESULTS AND RISK MANAGEMENT

1. Financial Status

Unit: NT$ thousands

Item	2018	2017	Difference	%
Current Assets	48,460,206	38,489,385	9,970,821	26
Properties	8,425,886	10,798,613	(2,372,727)	(22)
Intangible Assets	1,181,256	2,315,441	(1,134,185)	(49)
Other Assets	9,643,471	14,981,967	(5,338,496)	(36)
Total Assets	67,710,819	66,585,406	1,125,413	2
Current Liabilities	22,317,100	32,807,450	(10,490,350)	(32)
Non-current Liabilities	173,851	52,828	121,023	229
Total Liabilities	22,490,951	32,860,278	(10,369,327)	(32)
Capital Stock	8,188,135	8,208,261	(20,126)	-
Capital Surplus	15,576,268	15,551,491	24,777	-
Retained Earnings	24,491,992	12,204,252	12,287,740	101
Other Equity	(3,087,557)	(2,268,428)	(819,129)	(36)
Non-controlling Interests	51,030	29,552	21,478	73
Total Stockholders' Equity	45,219,868	33,725,128	11,494,740	34

* All numbers above are based on consolidated financial statements.

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

1. The current assets this year increased compared with that of previous year due to cash flows from the transaction of collaboration agreement with Google.
2. Property, plant and equipment reduced from previous year resulting from the activation of assets. Some of office space was leased, which was reclassified as investment property.
3. Intangible assets decreased in contrast to those of preceding year owing to the continuous amortization.
4. Profits earned within this fiscal year and the realization of originally recognized income tax assets resulted in the reduction of other assts.
5. Industrial competition led to the operation decline. Associated accounts payable and payables for marketing expenditure decreased compared with those of previous year.
6. Retained earning raised in consequence of more profits earned than those of preceding year.
7. Fair value was recognized as other comprehensive income financial assets. The variation of fair value brought about reduction in other equities.

2. Operating Results

Unit: NT$ thousands

Item	2018	2017	Difference	%
Revenues	23,740,610	62,119,814	(38,379,204)	(62)
Gross Profit	515,018	1,339,692	(824,674)	(62)
Operating Loss	(13,963,613)	(17,425,517)	3,461,904	20
Non-operating Income and Expenses	31,192,095	466,682	30,725,413	6,584
Net Income (Loss) Before Tax	17,228,482	(16,958,835)	34,187,317	202
Net Income (Loss) From Continuing Operations	12,024,901	(16,920,359)	28,945,260	171
Non-Continuing Operations Loss	-	-	-	-
Net Income (Loss)	12,024,901	(16,920,359)	28,945,260	171
Other Comprehensive Income And Loss For The Year, Net of Income Tax	(565,847)	(1,299,051)	733,204	56
Total Comprehensive Income For The Year	11,459,054	(18,219,410)	29,678,464	163
(Loss) Profit For The Year Attributable To Owners Of The Parent	12,068,202	(16,905,713)	28,973,915	171
(Loss) Profit For The Year Attributable To Non-Controlling Interest	(43,301)	(14,646)	(28,655)	(196)
Total Comprehensive Income Attributable To Owners Of the Parent	11,500,096	(18,205,286)	29,705,382	163
Total Comprehensive Income Attributable To Non-Controlling Interest	(41,042)	(14,124)	(26,918)	(191)
(Loss) Earnings Per Share- Basic	14.72	(20.58)	35.30	172
(Loss) Earnings Per Share- Diluted	14.50	(20.58)	35.08	170

* All numbers above are based on consolidated financial statements.

(1) Explanations for any material changes in HTC's revenues, operating income (loss), and profit (loss) before in come tax in the most recent two fiscal years

1. In the year of 2018, the global mobile phone market has come to saturate, and major brands were impacted with no exception to our company. The revenue in 2018 declined by 62% in contrast to that in 2017. However, thanks to appropriate cost control this year, there was no significant variation in gross margins. Moreover, as austerity was persistently practiced, overall operating expenses slid down, and in turn the operating deficit decreased in contrast with that of 2017.

2. As for the variation of non-operational income and loss between 2018 and 2017, it arose from the deal of collaboration agreement with Google in 2018, the transferring disposal of part of staff and assets, as well as the disposal profits generated from patent licensing.
3. Fair value was recognized as other comprehensive income financial assets so as to differ other comprehensive income between 2018 and 2017.

3. Cash Flows

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

Item \ Year	2018	2017	Difference
Cash Flow Ratio (%)	(42.55)	(57.94)	15.39
Cash Flow Adequacy Ratio (%)	(646.86)	(480.86)	(166)
Cash Flow Reinvestment Ratio (%)	(17.62)	(38.56)	20.94

Explanation and analysis of change:

The year 2018 showed a turn from loss to profit. Cash used in operational activities decreased in 2018 compared with that in 2017. As a result, the cash flow ratio and cash reinvestment ratio has unswung to -42.55% and -17.62%, respectively. In addition, in recent years the company has striven to decrease capital expenditures and fortify inventory clearance in order for transition. The cash flow adequacy ratio, consequently, diminished to -646.86%.

(2) Cash flow analysis for the coming year

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

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

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

1. Material capital expenditure and funding sources

None

2. Anticipated benefits

None

5. The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2018 and as of the date of this Annual Report: None

6. Investment Diversification in Recent Years

In 2018, the company continued to expand and deepen the ecosystem of virtual reality (VR) and augmented reality (AR), through strategic investment and the VIVE X accelerator program, to partner with incredibly talented and promising teams in VR and AR around the world to solve industry pain-points and improve user experiences across AR and VR and move the whole industry forward. New batch 4 VIVE X Accelerator Program are more focusing on startups devoted to the development of the cutting edge technologies and the enterprise application. So far, there are six VIVE X accelerator centers in the world to cultivate and grow the global VR and AR ecosystems.

7. Competitive Advantages, Business Growth and Assessment of Risks

(1) Risk factors

The following describes identified risks and related mitigating measures.

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

Impact on HTC profitability:

Item	2018(NT$1,000 or %)
Net Interest Income	544,857
Net Forex Income	491,052
Net Interest Income as percentage of Net Revenue	2.30%
Net Interest Income as percentage of Earnings Before Tax	3.16%
Net Forex Income as percentage of Net Revenue	2.07%
Net Forex Income as percentage of Earnings Before Tax	2.85%

Note: Calculated on HTC consolidated financial numbers

Working capital required to support HTC business operations over recent years has been supplied mainly from cash on hand. As the corporation has not taken out long-term loans, fluctuations in interest rates have had no effect on the Company's liabilities. HTC is prudent in its financial policies, and our asset allocation decisions prioritize security and fluidity, with most funds kept in time deposit accounts. In 2018, HTC interest income totaled NT$ 545 million.

HTC's revenues are denominated primarily in US dollars (USD) and euros (EUR). Manufacturing costs are denominated primarily in US dollars. Forex fluctuations have the potential to impact HTC revenues, operating costs and operating profits. Apart from efficient management of the quality and payment cycles of its foreign currency denominated accounts receivable, HTC uses forward exchange contracts to minimize its forex risk. At the end of 2018, financial derivatives held by HTC related to exchange risk were valued at USD 714.5 million, EUR 56 million, GBP 58 million, JPY 4,918 million, CAD 6 million, CNH 1,722.3 million and AUD 10 million. Fair value of the derivatives changes as a result of forex fluctuations. An increase of 1% in the quoted exchange rate of any one of the abovementioned currencies against the NT dollar would result in a derivatives holding loss to HTC of approximately NT$9.514 million.

During 2018, the US dollar against to the NT dollar fluctuated from 1:29.84 to 1:30.73. Net exchange income earned during 2018 totaled NT$491.052 million. Under effective management by the Company, negative effects of exchange rate fluctuations on profits in recent years have been minimal.

During 2018, the inflation in Taiwan was approximately 1.35%, 2.4% in North American and 1.8% in European markets, the inflation were relatively negligible in 2018. Overall, inflation had no significant impact on HTC profits.

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

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

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

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

In the existing smart phone production line, HTC has also put its focal R&D on 5G communication technologies and will realize mmWave as the primary goal, and then will focus on research and development of sub-6GHz. The high-bandwidth and low-latency features of 5G will make epoch-making progress in industry and business application scenarios. In the area of mobile phones, the company will keep developing technologies related to enhancing user experiences such as Edge Sense that supports more interactive functions, fast and accurate Face Unlock, wide-angle front cameras to give users more perfect experiences in taking selfies with more and wider backgrounds in the lens. High-efficiency, low-distortion earphone amplifiers make the sound effects of the built-in speakers more splendid and awesome. We continue to invest in and enhance use of the all-new smart sensor hub system and provide all-new user experience, more intuitive and more convenient operating experience, plus higher commitment to developing increasingly important applications related to sports, fitness and information. Through seamless integration with HTC BlinkFeed™, we will provide users with more information on health.

In 2019, the R&D plan of the company will focus on the technology development in 5G technology. The second generation HTC 5G products will be developed on the innovation of Sub-6 and mmWave 5G technology, aiming for consumer market and enterprise. HTC 5G products will leverage HTC's strength in VR and mobile communication technology to realize 5G killer applications. Distinguished from the existing CPE/Hotspot product category, the first generation HTC 5G mobile smart Hub designed with flagship Qualcomm SM8150 platform, running the Android operating system, this enables critical technologies such as multi-media services, commerce application, intellectual assistant, and 5G Cloud VR to establish its strong advantages over competitors in consumer market as well as enterprise applications. The research and development upon subsequent models will persist in developing killer application that highly correlated to 5G Cloud services. Moreover, the company will put efforts to lower costs to keep enlarging competitive advantages. As for the fundamental technology innovation, HTC will continue to strengthen the collaboration with suppliers of 5G chipsets and network companies. It will refresh people with the designs for innovative antenna, RF front end design, and Modem power consumption improvement for battery endurance and the better communication quality.

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

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

The domestic / foreign government policies and regulations have not had a significant adverse impact on the company last year.

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

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

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

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

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

As of the printing of this annual report date, does not have any acquisition plans.

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

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

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

Purchase:

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

Sales:

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

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

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

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

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

12. Lawsuit:

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

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

In June 2011, IPCom filed a new complaint against the Company alleging patent infringement of patent owned by IPCom with the High Court in London, the United Kingdom.

In September 2011, the Company filed declaratory judgment action for non-infringement and invalidity in Milan, Italy. Legal proceedings in above-mentioned courts in Germany and the United Kingdom are still ongoing. The Company implemented the alternative solution since 2012. The Company evaluated the lawsuits and considered the risk of patents-in-suits are low. Also, preliminary injunction and summary judgment against the alternative solution of the Company are very unlikely.

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

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

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

(2) In December 2015, Koninklijke Philips N.V. (Philips) filed a lawsuit against the Company in the District Court of Mannheim, Germany, alleging infringement of certain Philips patents. In October 2016, the Mannheim Court found that certain smartphone products sold by Company in Germany infringed the German part of European Patent No. 0 888 687 (EP '687 patent), which relates to device user interface, and granted an injunction against the Company. However, Philips' attempts to enforce an injunction based on this patent were unsuccessful due to a workaround, supplied by Google, being implemented in HTC devices. In July 2017, the German Federal Patent Court found that EP 687 patent is invalid.

Philips' infringement hearing relating to their patent number European Patent No. 1 459 165 was heard on 16 May 2018. The patent concerned scrolling functionality. Unusually, the judges dismissed the infringement allegations at the hearing rather than waiting to issue a written decision. The other infringement case based on Philips' patents is taking place in Q2 2018. This case is based on patent European Patent No. 1 356 367 which relates to dimming control of a device screen. The infringement trial hold on 22 June 2018 and has stayed the infringement action pending the outcome of the nullity action on 28 September 2018.

Philips filed a lawsuit against the Company in United Kingdom, alleging infringement of certain Philips SEP patents. Since in October 2017, the court of appeal of the United Kingdom dismissed HTC's appeal allegation that the rights we obtain by virtue of a covenant between Philips and Qualcomm Incorporated extend to Philips' patents covering HSPA technology. As such, the covenant does not provide HTC with a defense against the patent actions in suit relating to this technology. The technical hearings of the three patents- in- suit has proceed as follows: European Patent No. (UK) 1 440 525 was heard in late April 2018. The Court decision shows that Company infringes '525. Company has implemented workaround to '525. European Patent No. (UK) 1 685 659 was heard in middle of June and the Court rules that '659 is invalid and the Court decision shows that Company infringes '511.

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 approved and authorized for issuing consolidated financial statements, the appeals court has not issued a ruling with respect to the above-mentioned patent-in-suit.

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

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

None.

8. Other Important Matters

None.

7

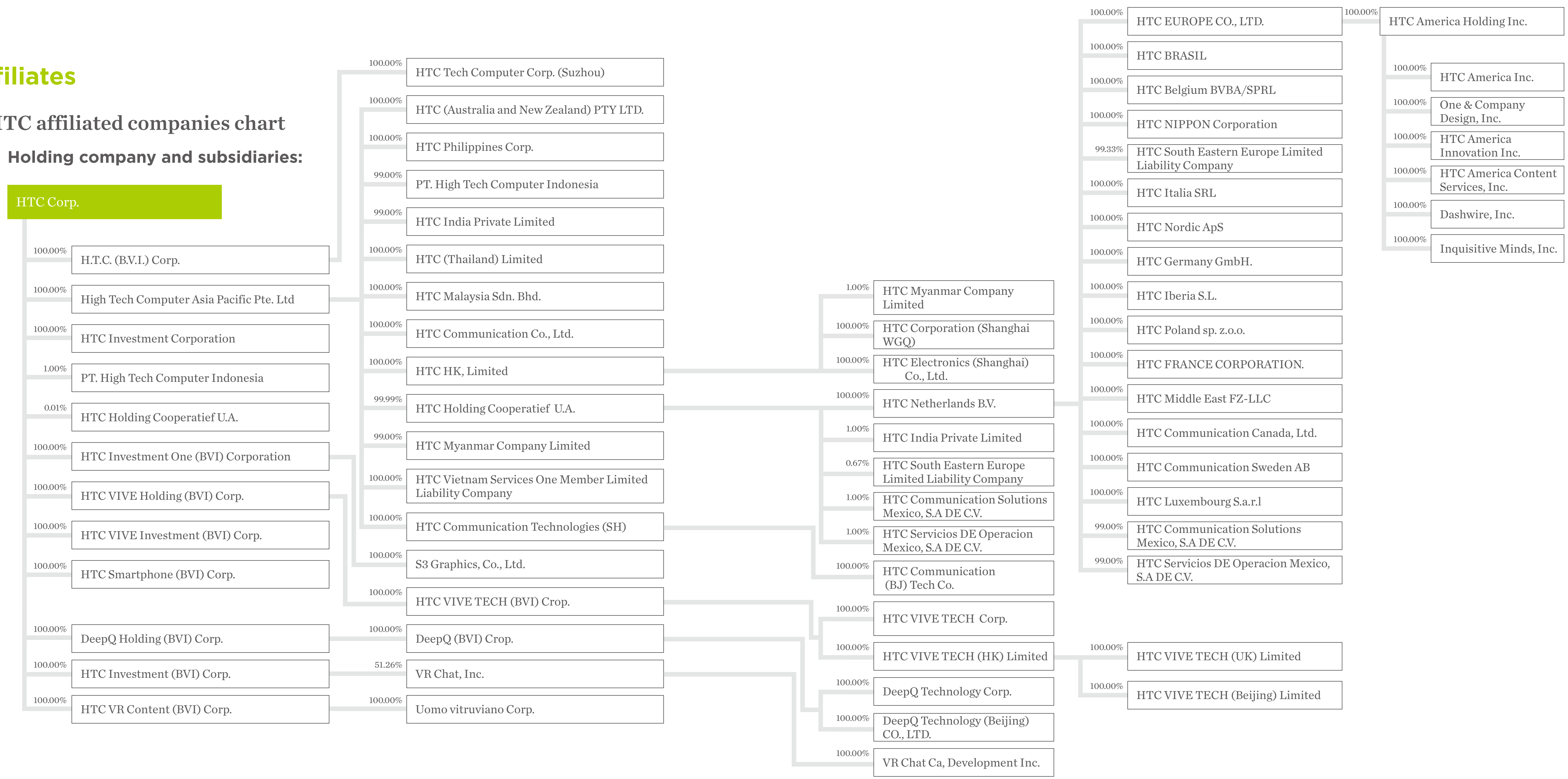
AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

1. Affiliates

(1) HTC affiliated companies chart

1. Holding company and subsidiaries:



2. Reciprocal affiliation: None

(2) HTC affiliated companies

Amount in thousands

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Investor:				
HTC Corporation	1997.05.15	No.23, Xinghua Rd., Taoyuan City, Taoyuan County 330, Taiwan, R.O.C.	NTD 8,188,135	Principally engaged in the design, manufacture and marketing of PDA phones, smartphones and handheld devices, as well as the provision of related technologies and after services
Investee:				
H.T.C. (B.V.I.) Corp.	2000.08.01	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 4,535,994 (USD147,620)	International holdings and general investing activities
High Tech Computer Asia Pacific Pte. Ltd.	2007.07.12	#13-00 Robinson 77 Singapore 068896	NTD 15,699,652 (SGD 696,272)	International holdings, marketing, repair and after-sales services
HTC Investment Corporation	2008.07.24	1F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 300,000	General investing activities
HTC Investment One (BVI) Corporation	2011.06.20	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 10,254,781 (USD 333,733)	Holding S3 Graphics Co., Ltd. and general investing activities
HTC Investment (BVI) Corp.	2015.07.29	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 553,095 (USD 18,000)	General investing activities
HTC VIVE Holding (BVI) Corp.	2015.08.31	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 215,093 (USD 7,000)	International holdings
HTC VIVE Investment (BVI) Corp	2016.09.01	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 307,275 (USD 10,000)	General investing activities
DeepQ Holding (BVI) Corp.	106.03.08	3rd Floor, J & C Building P.O. Box 362 Road Town, Tortola British Virgin Islands, VG1110	NTD 215,093 (USD 7,000)	International holdings
HTC Smartphone (BVI) Corp.	106.07.19	3rd Floor, J & C Building P.O. Box 362 Road Town, Tortola British Virgin Islands, VG1110	NTD 1,014 (USD 33)	International holdings
HTC VR Content (BVI) Corp.	106.07.05	3rd Floor, J & C Building P.O. Box 362 Road Town, Tortola British Virgin Islands, VG1110	NTD 52,544 (USD1,710)	International holdings
HTC Tech Computer Corp. (Suzhou)	2003.01.01	Room 1201, Building 4, Xinghai Building, No. 198 Xinghai Street, Suzhou Industrial Park	NTD 3,073 (USD100)	Manufacturing and sale of smart handheld devices and electronic components
HTC (Australia and New Zealand) PTY LTD.	2007.08.28	c/o The Hub, 223 Liverpool Street, Darlinghurst NSW 2010, Australia	NTD 86,842 (AUD 4,000)	Marketing, repair and after-sales services
HTC Philippines Corporation	2007.12.06	Unit 32 3/F Worldnet Business Center Zeta Bldg 191, Salcedo St Legaspi Village, Makati City 1229	NTD 6,146 (USD 200)	Marketing, repair and after-sales services
PT. High Tech Computer Indonesia	2007.12.03	Plaza Semanggi 7th Floor, unit No. Z07-006 Kawasan Bisnis Granadha Jl. Jend. Sudirman Kav. 50 Jakarta -12930 Indonesia	NTD 3,603 (IDR 1,699,313)	Marketing, repair and after-sales services
HTC (Thailand) Limited	2007.11.06	No. 9, G Tower, Level 33, Unit No. 3325, Rama 9 Road, Huaykwang Sub-district, Huaykwang District, Bangkok	NTD 23,659 (THB 25,000)	Marketing, repair and after-sales services
HTC India Private Limited	2008.01.30	C-109 and C-110, First Floor, M3M, Cosmopolitan, Golf Course Expention Road, Gurugram, Haryana-122002	NTD 2,201 (IDR 5,000)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC Malaysia Sdn. Bhd.	2007.11.07	Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	NTD 1,857 (MYR 250)	Marketing, repair and after-sales services
HTC Communication Co., Ltd.	2008.12.29	1F, D Building, China Core Science Park, No. 2557 Jinke Road, Pilot Free Trade Zone, Shanghai China	NTD 3,917,756 (USD 127,500)	Sale of smart handheld devices and electronic components
HTC HK, Limited	2006.08.26	Unit Nos. 04-05, 11th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong	NTD 4,097,672 (HKD 1,044,376)	International holdings, marketing, repair and after-sales service
HTC Holding Cooperatief U.A.	2009.08.18	Secoya Building, Papendorpseweg 99, 3528 BJ, Utrecht, Netherlands	NTD 6,536,519 (EUR 185,900)	International holdings
HTC Communication Technologies (SH)	2011.08.01	2F, D Building, China Core Science Park, No. 2557 Jinke Road, Pilot Free Trade Zone, Shanghai China	NTD 122,910 (USD 4,000)	Design, research and development of application software
HTC Myarmar Company Limited	2013.07.31	No. 174-182, Pansodan Road (Middle Block), Kyauktada Township, Yangon, Myanmar	NTD 1,976 (MMK 98,978)	Marketing, repair and after-sales services
HTC Vietnam Services One Member Limited Liability Company	2014.09.27	L9-08A, Floor 9, Vincom Center Dong Khoi, 72 Le Thanh Ton Street and 45A Ly Tu Trong Street, Ben Nghe ward, District 1, Ho Chi Minh city, Viet Nam.	NTD5,584 (VND 4,230,000)	Marketing, repair and after-sales services
S3 Graphics Co, Ltd.	2001.01.03	P.O. Box 709 George Town Grand Cayman	NTD 9,464 (USD 308)	Design, research and development of graphics technology
HTC Corporation (Shanghai WGQ)	2007.07.09	6A, No.288, Hedan Rd., Waigaoqiao Free Trade Zone, Shanghai, China	NTD 46,091 (USD 1,500)	Repair and after-sales services
HTC Electronics (Shanghai) Co., Ltd.	2007.01.22	Room 123, No. 2502, Hunan Road, Kangqiao Industrial Zone, Nanhui District, Shanghai, China	NTD 4,083,961 (USD 132,909)	Manufacture and sale of smart handheld devices and electronic components
HTC Communication (BJ) Tech Co.	2014.06.04	Floor 4 401 South Zone, No.7, Courtyard 1, Zhongguancun East Road, Haidian District, Beijing	NTD 46,910 (RMB 10,500)	Design, research and development of application software
HTC Netherlands B.V.	2009.11.11	Secoya Building, Papendorpseweg 99, 3528 BJ, Utrecht, Netherlands	NTD 5,059,104 (EUR 143,882)	International holdings, marketing, repair and after-sales service
HTC EUROPE CO., LTD.	2003.07.09	Salamanca Wellington Street Slough Berkshire England SL1 1YP	NTD 3,270,122 (GBP 83,502)	International holdings, marketing, repair and after-sales service
HTC BRASIL	2006.10.25	Rua James Joule, No.92, Suite 82, 7th Floor, Edificio Plaza.1, in the Capital City of Sao Paulo, State of Sao Paulo.	NTD 15,731 (BRL 1,987)	Marketing, repair and after-sales services
HTC Belgium BVBA/SPRL	2006.10.12	Havenlaan 86/c , box 204 – 1000 Brussels	NTD 668 (EUR 19)	Marketing, repair and after-sales services
HTC NIPPON Corporation	2006.03.22	25F West Tower, Kasumigaseki Common Gate, 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo	NTD 2,787 (JPY 10,000)	Sale of smart handheld devices and electronic components
HTC FRANCE CORPORATION	2010.04.02	63 bis, rue de Sèvres, 92100 Boulogne-Billancourt, France	NTD 386,776 (EUR 11,000)	Marketing, repair and after-sales services
HTC South Eastern Europe Limited Liability Company	2010.04.27	Kifissias 90, Marousi 15125, Athens, Greece	NTD 158 (EUR 4.5)	Marketing, repair and after-sales services

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC Nordic ApS.	2010.07.01	c/o Redmark, Sommervej 31 C, Hasle, 8210 Aarhus V	NTD 377 (DKK 80)	Marketing, repair and after-sales services
HTC Italia SRL	2007.02.19	C/o Studio Gargani & Associati, Via Nicolò Tartagli, 11, 00197 Roma, Italy	NTD 352 (EUR 10)	Marketing, repair and after-sales services
HTC Germany GmbH.	2010.09.06	4th Floor, Zeil 83 60313 Frankfurt am Main	NTD 879 (EUR 25)	Marketing, repair and after-sales services
HTC Iberia S.L.	2010.10.08	Conde de Vilches, 19, Madrid, 28028, Spain	NTD 105 (EUR 3)	Marketing, repair and after-sales services
HTC Poland sp. z o.o.	2010.09.01	Jerozolimskie Business Park, Al. Jerozolimskie 146A, 02-305 Warszawa, Poland	NTD 1,911 (PLN 234)	Marketing, repair and after-sales services
HTC Communication Canada, Ltd.	2011.01.25	2900-550 Burrard Street, Vancouver BC V6C 0A3, Canada	NTD 46,091 (USD 1,500)	Marketing, repair and after-sales services
HTC Communication Sweden AB	2011.09.26	C/o Revideco AB Drottningholmsvägen 22 112 42 Stockholm	NTD 3,431 (SEK 1,000)	Marketing, repair and after-sales services
HTC Luxembourg S.a.r.l.	2011.05.31	46A Avenue John F. Kennedy L-1855 Luxembourg	NTD 440 (EUR 12.5)	Online/download media services
HTC Middle East FZ-LLC	2012.07.08	3701A, 37 Floor, Business Central Towers, Dubai, United Arab Emirates, P.O BOX 500164	NTD 29,279 (AED 3,500)	Marketing, repair and after-sales services
HTC Communication Solutions Mexico, S.A DE C.V.	2015.04.01	Paseo de la Reforma 505 piso 32 Col Cuauhtemoc. Cp 06500 Mexico DF.	NTD 78 (MXN 50)	Marketing, repair and after-sales services
HTC Servicios DE Operacion Mexico, S.A DE C.V.	2015.04.01	Paseo de la Reforma 505 piso 32 Col Cuauhtemoc. Cp 06500 Mexico DF.	NTD 78 (MXN 50)	Human resource management
HTC America Holding Inc.	2010.04.23	308 Occidental Ave S 3rd floor, Seattle, WA 98104	NTD 8,177,387 (USD 266,126)	International holdings
HTC America Inc.	2003.01.06	308 Occidental Ave S 3rd floor, Seattle, WA 98104	NTD 5,162,220 (USD 168,000)	Sale of smart handheld devices and electronic components
One & Company Design, Inc.	2003.10.04	2700 18th Street San Francisco, CA,USA, 94110	NTD 1,106 (USD 36)	Design, research and development of application software
HTC America Innovation Inc.	2010.04.23	308 Occidental Ave S 3rd floor, Seattle, WA 98104	NTD 92,183 (USD 3,000)	Design, research and development of application software
HTC America Content Services, Inc.	2011.03.28	308 Occidental Ave S 3rd floor, Seattle, WA 98104	NTD 1,017,080 (USD 33,100)	Online/download media services
Dashwire, Inc.	2006.08.11	850 New Burton Road, Suite 201 Dover DE 19904	NTD 0.003 (USD 0.0001)	Cloud Synchronization Technology design and management
Inquisitive Minds, Inc.	2008.12.04	2700 18th Street, San Francisco, CA USA 94110	NTD 0.031 (USD 0.001)	Development and sale of Digital Education Platform
HTC VIVE TECH (BVI) Corp.	2015.08.31	3F, J&C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	NTD 215,093 (USD 7,000)	International holdings
HTC VIVE TECH Corp.	2015.12.21	8F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD 1,000	Research, development and sale of virtual reality devices

(Continued)

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
HTC VIVE TECH (HK) Limited	106.06.21	RM. 2401, 101 King's Road, Fortress Hill, Hong Kong	NTD 208,947 (USD 6,800)	Research, development and sale of virtual reality devices
HTC VIVE TECH (Beijing) Limited	106.06.02	RM 601 ,601-3, 6F, VIA Building, Building 7, No.1 Zhongguancun East Road, Hadian District , Beijing	NTD24,582 (USD 800)	Research, development and sale of virtual reality devices
HTC VIVE TECH (UK) Limited	106.06.23	Salamanca, Wellington Street, Slough, Berkshire, United Kingdom SL1 1YP	NTD184,365 (USD 6,000)	Research, development and sale of virtual reality devices
DeepQ (BVI) Corp.	106.03.02	3rd Floor, J & C Building P.O. Box 362 Road Town, Tortola British Virgin Islands, VG1110	NTD 214,171 (USD 6,970)	International holdings
DeepQ Technology Corp.	106.06.21	13F., No. 207-5, Sec. 3, Beixin Rd.,Xindian Dist, New Taipei City 231, Taiwan	NTD115,000	Health techonology and haealth care business
DeepQ Technology (Beijing) Co., Ltd	106.12.21	1101-1, 11th Floor, Building 7, No.1, Zhongguancun East Road, Haidian District, Beijing	NTD 92,183 (USD 3,000)	Development and marketing of software technology
VRChat. Inc.	104.11.30	288 Bryn Mawr Cir, Houston TX 77024, USA	NTD 275,964 (USD 8,981)	Software development of virtual reality
Uomo vitruviano Corp.	106.09.15	11F, No. 88 Section 3, Zhongxing Road, Xindian District, New Taipei City 231, Taiwan, R.O.C.	NTD10,000	Software development of virtual reality
VRChat. Ca. Development Inc.	105.01.01	288 Bryn Mawr Cir, Houston TX 77024, USA	NTD 36,505 (USD 1,617)	Software development of virtual reality

Note: Paid-in capital is translated at the exchange rates prevailing on the balance sheet date.

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

None.

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

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

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

(2) Division of labor among all affiliates:

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

1. The primary business of HTC Holding Cooperatief U.A, HTC VIVE Holding (BVI) Corp., HTC America Holding Inc., HTC VIVE TECH (BVI) Corp., DeepQ Holding (BVI) Corp., HTC Smartphone (BVI) Corp., HTC VR Content (BVI) Corp.,and DeepQ (BVI) Corp. is international holdings.

2. The primary business of H.T.C. (B.V.I.) Corp. is international holdings and general investing activities.
3. The primary business of HTC Investment Corporation , HTC Investment (BVI) Corp.and HTC VIVE Investment (BVI) Corp. is general investing activities.
4. High Tech Computer Corp. (Suzhou) and HTC Electronics (Shanghai) Co., Ltd. engage in the manufacture and sale of smart handheld devices.
5. HTC Corporation (Shanghai WGQ) engages in detect, after-sales services, and technical Advisory of smart handheld devices.
6. HTC Communication Co., Ltd. engages in the sale of smart handheld devices.
7. HTC America Innovation Inc., One & Company Design Inc., HTC Communication (BJ) Tech Co. and HTC Communication Technologies (SH) engage in design, research and development of application software.
8. HTC America Inc. and HTC NIPPON Corporation engage in the sale of smart handheld devices and electronic components.
9. High Tech Computer Asia Pacific Pte. Ltd., HTC HK, Limited, HTC Netherlands B.V., and HTC EUROPE CO., LTD. engage in global investing activities, marketing, repair and after-sales service.
10. HTC Luxembourg S.a.r.l. and HTC America Content Services, Inc. engage in online and download media services.
11. Dashwire, Inc. engages in design and management of cloud synchronization technology.
12. Inquisitive Minds, Inc. is mainly engaged in development and sale of digital education platform.
13. HTC Investment One (BVI) Corporation is mainly engaged in acquisitions and general investment for S3 Graphics Co., Ltd.
14. The primary business of S3 Graphics Co, Ltd. is design, research and development of graphics technology.
15. HTC Servicios DE Operacion Mexico, S.A DE C.V. is mainly engaged in human resource management.
16. HTC VIVE TECH Corp., HTC VIVE TECH (HK) Limited, HTC VIVE TECH (Beijing) Limited , and HTC VIVE TECH (UK) Limited are mainly engaged in research, development and sale of virtual reality devices.
17. DeepQ Technology Corp. is mainly engaged in health technology and health care business.
18. DeepQ Technology (Beijing) Co., Ltd is mainly engaged in development and marketing of software technology.
19. VRChat. Inc., Uomo vitruviano Corp., and VRChat. Ca. Development Inc. are mainly engaged in Software development of virtual reality.
20. The remaining companies engage in marketing, repair and after-sales services.

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

Unit: NT$ thousands, except shareholding

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
Investor:				
HTC Corporation	Chairwoman	Cher Wang	32,272,427 shares	3.93%
	Director	Wen-Chi Chen	22,391,389 shares	2.73%
	Director	HT Cho	96,530 shares	0.01%
	Director	David Bruce Yoffie	-	-
	Independent Director	Chen-Kuo Lin	-	-
	Independent Director	Josef Felder	300,000 shares	0.04%
	Supervisor	Way-Chih Investment Co., Ltd. Representative: Shao-Lun Lee	43,819,290 shares	5.34%
	Supervisor	Huang-Chieh Chu	-	-
Investee:				
H.T.C. (B.V.I.) Corp.	Chairwoman	HTC Corporation Representative: Cher Wang	1,475,201,760 shares	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	Director	HTC Corporation Representative: Cher Wang, Marcus Woo, Chow Hong Luen Irwin	524,534,059 shares	100.00%
HTC Investment Corporation	Chairperson	HTC Corporation Representative: Cher Wang	30,000,000 shares	100.00%
	Director	HTC Corporation Representative: Peter Shen, Marcus Woo	30,000,000 shares	100.00%
	Supervisor	HTC Corporation Representative: Hsiu Lai	30,000,000 shares	100.00%
HTC Investment One (BVI) Corporation	Director	HTC Corporation Representative: Cher Wang	333,733,246 shares	100.00%
HTC Investment (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen	18,000,000 shares	100.00%
HTC VIVE Holding (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen, Dannie Liu	7,000,000 shares	100.00%
HTC VIVE Investment (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen, Dannie Liu	10,000,000 shares	100%
DeepQ Holding (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen, Dannie Liu	7,000,000 shares	100%
HTC Smartphone (BVI) Corp.	Director	HTC Corporation Representative: Ralph Wang	33,066 shares	100%
HTC VR Content (BVI) Corp.	Director	HTC Corporation Representative: Peter Shen, Dannie Liu	1,710,000 shares	100%
HTC Tech Computer Corp. (Suzhou)	Chairperson	H.T.C. (B.V.I.) Corp. Representative: Peter Shen	USD 100 thousands	100.00%

(Continued)

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC (Australia and New Zealand) PTY LTD	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Chiate Lu, Dannie Liu, Elson Pow	400,000 shares	100.00%
HTC Philippines Corporation	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Ralph Wang, Dannie Liu, Majorie L. Elic, Juancho S. Ong, Edgardo C. Abenis	858,765 shares	100.00%
PT. High Tech Computer Indonesia	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Jackson Yang	185,625 shares	99.00%
	Director	HTC Corporation Representative: Jackson Yang	1,875 shares	1.00%
	Supervisor	High Tech Computer Asia Pacific Pte. Ltd. Representative: Edward Wang	185,625 shares	99.00%
	Supervisor	HTC Corporation Representative: Edward Wang	1,875 shares	1.00%
HTC (Thailand) Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Faisal Siddiqui, Chiate Lu	10,000,000 shares	100.00%
HTC India Private Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Chiate Lu, Dannie Liu, Ujjwal Sharma	495,000 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: Chiate Lu, Dannie Liu, Ujjwal Sharma	5,000 shares	1.00%
HTC Malaysia Sdn. Bhd.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Chiate Lu, Yeoh Cheng Lee, Abd Malik Bin A. Rahman	25,000 shares	100.00%
HTC Communication Co., Ltd.	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Shen	USD 127,500 thousands	100.00%
HTC HK, Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Chiate Lu, Abraxas Limited	1,044,375,526 shares	100.00%
HTC Holding Cooperatief U.A.	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Shen, Yvonne Theuns	EUR 175,234 thousands	99.99%
	Director	HTC Corporation Representative: Peter Shen, Yvonne Theuns	EUR 0.28 thousands	0.01%
HTC Communication Technologies (SH)	Chairperson	High Tech Computer Asia Pacific Pte. Ltd. Representative: Peter Shen	USD 4,000 thousands	100.00%
HTC Myanmar Company Limited	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Chiate Lu	99,000 shares	99.00%
	Director	HTC HK Limited Representative: Chiate Lu	1,000 shares	1.00%
HTC Vietnam Services One Member Limited Liability Company	Director	High Tech Computer Asia Pacific Pte. Ltd. Representative: Chiate Lu	USD 200 thousands	100.00%
S3 Graphics Co, Ltd.	Director	HTC Investment One (BVI) Corporation Representative: Peter Shen, Marcus Woo	386,338,516 shares	100.00%
HTC Corporation (Shanghai WGQ)	Executive Director	HTC HK, Limited Representative: Georges Boulloy	USD 1,500 thousands	100.00%

(Continued)

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC Electronics (Shanghai) Co., Ltd.	Chairperson	HTC HK, Limited Representative: Peter Shen	USD 132,909 thousands	100.00%
HTC Communication (BJ) Tech Co.	Chairperson	HTC Communication Technologies (Shanghai Limited) Representative: Peter Shen	RMB 10,500 thousands	100.00%
HTC Netherlands B.V.	Representative	HTC Holding Cooperatief U.A.	143,881,816 shares	100.00%
HTC EUROPE CO. LTD.	Director	HTC Netherlands B.V. Representative: Peter Shen, Marcus Woo	83,502,442 shares	100.00%
HTC BRASIL	Representative	HTC Netherlands B.V.	1,987,399 shares	99.99%
	Representative	HTC Cooperatief U.A.	1 share	0.01%
HTC Belgium BVBA/SPRL	Director	HTC Netherlands B.V. Representative: Gilbert Ng, TMF Management	18,549 shares	100.00%
HTC NIPPON Corporation	Director	HTC Netherlands B.V. Representative: Peter Shen, Kojima Masakatin, Chiate Lu	1,000 shares	100.00%
HTC France Corporation	President	HTC Netherlands B.V. Representative: Graham Wheeler	11,000,000 shares	100.00%
HTC South Eastern Europe Limited Liability Company	Administrator	HTC Netherlands B.V. Representative: Nikitas Glykas	149 shares	99.33%
	Administrator	HTC Holding Cooperatief U.A. Representative: Nikitas Glykas	1 share	0.67%
HTC Nordic ApS	Director	HTC Netherlands B.V. Representative: Graham Wheeler, Chiate Lu	80,000 shares	100.00%
HTC Italia SRL	Director	HTC Netherlands B.V. Representative: (Liquidator) Gilbert Ng	EUR 10 thousands	100.00%
HTC Germany GmbH	Director	HTC Netherlands B.V. Representative: Graham Wheeler	25,000 shares	100.00%
HTC Iberia S.L.U.	Director	HTC Netherlands B.V. Representative: Graham Wheeler	3,006 shares	100.00%
HTC Poland sp z o.o.	Director	HTC Netherlands B.V. Representative: Graham Wheeler, Chiate Lu	4,687 shares	100.00%
HTC Communication Canada, Ltd.	Director	HTC Netherlands B.V. Representative: Peter Shen, Daniel O'Brien, Chiate Lu	1,500,000 shares	100.00%
HTC Communication Sweden AB	Director	HTC Netherlands B.V. Representative: Graham Wheeler, Chiate Lu	1,000,000 shares	100.00%
HTC Luxembourg S.a.r.l.	Director	HTC Netherlands B.V. Representative: Chiate Lu, Anne Bolkow	12,500 shares	100.00%
HTC Middle East FZ-LLC	Director	HTC Netherlands B.V. Representative: RalphWang	3,500 shares	100.00%
HTC Communication Solutions Mexico, S.A DE C.V.	Director	HTC Netherlands B.V. Representative: Peter Shen, Chiate Lu	49,500 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: André Peter Shen, Chiate Lu	500 shares	1.00%

(Continued)

Company	Title	Name or Representative	Shareholding: Shares (Investment Amount)	Shareholding: Investment Holding Percentage
HTC Servicios DE Operacion Mexico, S.A DE C.V.	Director	HTC Netherlands B.V. Representative: Peter Shen, Chiate Lu	49,500 shares	99.00%
	Director	HTC Holding Cooperatief U.A. Representative: Peter Shen, Chiate Lu	500 shares	1.00%
HTC America Holding, Inc.	Director	HTC EUROPE CO. LTD Representative: Peter Shen	371,617,151 shares	100.00%
HTC America, Inc.	Director	HTC America Holding, Inc. Representative: Peter Shen, Marcus Woo	1,000 shares	100.00%
One & Company Design, Inc.	Director	HTC America Holding, Inc. Representative: Chiate Lu	60,000 shares	100.00%
HTC America Innovation, Inc.	Director	HTC America Holding, Inc. Representative: Hsiu Lai	1,000 shares	100.00%
HTC America Content Services, Inc.	Director	HTC America Holding, Inc. Representative: Chiate Lu	31,000 shares	100.00%
Dashwire, Inc.	Director	HTC America Holding, Inc. Representative: Chiate Lu	100 shares	100.00%
Inquisitive Minds, Inc.	Director	HTC America Holding, Inc. Representative: Chiate Lu	100 shares	100.00%
HTC VIVE TECH (BVI) Corp.	Director	HTC VIVE Holding (BVI) Corp. Representative: Peter Shen, Dannie Liu	70,000,000 shares	100.00%
HTC VIVE TECH Corp.	Chairperson	HTC VIVE Tech (BVI) Corp. Representative: Peter Shen	100,000 shares	100.00%
	Director	HTC VIVE Tech (BVI) Corp. Representative: Marcus Woo	100,000 shares	100.00%
	Director	HTC VIVE Tech (BVI) Corp. Representative: Dannie Liu	100,000 shares	100.00%
	Supervisor	HTC VIVE Tech (BVI) Corp. Representative: Chiate Lu	100,000 shares	100.00%
HTC VIVE TECH (HK) Limited	Director	HTC VIVE TECH (BVI) Corp. Representative: Peter Shen, Marcus Woo, Dannie Liu	6,800,000 share	100.00%
HTC VIVE TECH (Beijing) Limited	Director	HTC VIVE TECH (HK) Limited Representative: Peter Shen	USD 800 thoudands	100.00%
HTC VIVE TECH (UK) Limite	Director	HTC VIVE TECH (HK) Limited. Representative: Peter Shen, Marcus Woo, Dannie Liu	6,000,0000 shares	100.00%
DeepQ (BVI) Corp.	Director	DeepQ Holding (BVI) Corp Representative: Peter Shen, Dannie Liu	69,700,000 shares	100.00%
DeepQ Technology Corp.	Director	DeepQ (BVI) Corp . Representative: Peter Shen, Marcus Woo, Dannie Liu	11,500,000 shares	100.00%
DeepQ Technology (Beijing) Co., Ltd	Chairperson	DeepQ (BVI) Corp . Representative: Peter Shen	USD 3,000 thoudands	100.00%
VRChat. Inc.	Director	GAYLOR, GRAHAM BLUM, JOUDREY, JESSE BRIAN FRANK	66,548,458 shares	51.26%
Uomo vitruviano Corp.	Director	HTC VR Content (BVI) Corp. Representative: Peter Shen, Marcus Woo, Dannie Liu	1,000,000 shares	100.00%
VRChat. Ca. Development Inc	Director	GAYLOR, GRAHAM BLUM, JOUDREY, JESSE BRIAN FRANK	100 shares	100.00%

(6) Operational highlights of HTC affiliated companies

Unit: NT$ thousands

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
Investor:								
HTC Corporation	$ 8,188,135	$ 69,891,504	$ 24,722,666	$ 45,168,838	$ 22,205,824	($ 12,437,947)	$ 12,068,202	$ 14.72
Investee:								
H.T.C. (B.V.I.) Corp.	4,535,994	2,584,797	-	2,584,797	-	(31,521)	(27,580)	(0.02)
High Tech Computer Asia Pacific Pte. Ltd.	15,699,652	21,551,919	5,272	21,546,647	18,712	894,881	810,369	1.18
HTC Investment Corporation	300,000	224,452	100	224,352	163	97	(7,886)	(0.26)
HTC Investment One (BVI) Corporation	10,254,781	1,195,053	780	1,194,273	378	(1,155,558)	(1,133,763)	(3.40)
HTC Investment (BVI) Corp.	553,095	1,079,959	-	1,079,959	14,700	(32,402)	(31,684)	(1.76)
HTC VIVE Holding (BVI) Corp.	215,093	210,452	-	210,452	-	10,234	10,212	1.46
HTC VIVE Investment (BVI) Corp	307,275	308,078	-	308,078	-	-	481	0.07
DeepQ Holding (BVI) Corp.	215,093	197,488	-	197,488	-	(9,069)	(8,958)	(1.72)
HTC Smartphone (BVI) Corp.	1,014	904	-	904	-	-	(67)	(4.47)
HTC VR Content (BVI) Corp.	52,544	52,532	-	52,532	-	261	162	0.51
HTC Tech Computer Corp. (Suzhou)	3,073	104,202	190	104,012	-	(245)	1,136	-
HTC (Australia and New Zealand) PTY LTD.	86,842	251,293	48,970	202,323	51,802	2,968	1,919	4.80
HTC Philippines Corporation	6,146	6,349	-	6,349	-	-	-	-
PT. High Tech Computer Indonesia	3,603	24,006	4,461	19,545	-	(3,794)	(3,294)	(17.52)
HTC (Thailand) Limited	23,659	52,015	3,816	48,199	4,133	197	207	0.02
HTC India Private Limited	2,201	292,468	136,077	156,391	227,516	174,722	118,702	237.40
HTC Malaysia Sdn. Bhd.	1,857	26,142	1,710	24,432	18,849	896	639	25.56
HTC Communication Co., Ltd.	3,917,756	2,567,665	538,318	2,029,347	1,297,140	(418,487)	(446,651)	-
HTC HK, Limited	4,097,672	8,178,949	13,489	8,165,460	59,077	1,359,530	1,312,152	1.26
HTC Holding Cooperatief U.A.	6,536,519	10,247,001	16,628	10,230,373	-	(109,903)	(200,348)	-
HTC Communication Technologies (SH)	122,910	650,222	218,949	431,273	531,677	39,551	19,568	-
HTC Myarmar Company Limited	1,976	1,964	-	1,964	-	-	-	-
HTC Vietnam Services One Member Limited Liability Company	5,584	12,770	3,898	8,872	17,545	900	597	-
S3 Graphics Co, Ltd.	9,464	95,454	-	95,454	1	(149)	376	-
HTC Corporation (Shanghai WGQ)	46,091	94,582	7,625	86,957	12,651	(31,258)	(29,424)	-
HTC Electronics (Shanghai) Co., Ltd.	4,083,961	7,975,252	50,803	7,924,449	-	(55,328)	1,339,633	-
HTC Communication (BJ) Tech Co.	46,910	97,640	16,277	81,363	139,796	9,146	6,032	-

(Continued)

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Net of Tax)	EPS (Net of Tax)
HTC Netherlands B.V.	$ 5,059,104	$ 10,296,718	$ 57,055	$ 10,239,663	$ 19,453	($ 104,307)	($ 194,755)	($ 1.35)
HTC EUROPE CO., LTD.	3,270,122	9,649,561	108,345	9,541,216	604,086	(120,486)	(207,803)	(2.49)
HTC BRASIL	15,731	20,595	3,906	16,689	3,180	160	137	0.07
HTC Belgium BVBA/ SPRL	668	26,014	8,111	17,903	42,999	2,048	1,033	55.69
HTC NIPPON Corporation	2,787	551,650	401,204	150,446	1,142,704	12,341	5,462	5,462.00
HTC FRANCE CORPORATION	386,776	54,002	16,499	37,503	39,064	1,115	928	0.08
HTC South Eastern Europe Limited Liability Company	158	6,263	1,007	5,256	-	-	(7)	(46.67)
HTC Nordic ApS.	377	11,956	1,206	10,750	5,646	546	408	5.10
HTC Italia SRL	352	8,531	4,794	3,737	-	(2,580)	(2,628)	-
HTC Germany GmbH.	879	112,765	310	112,455	84,856	7,574	5,520	220.80
HTC Iberia S.L.	105	26,309	169	26,140	7,617	363	274	91.33
HTC Poland sp. z o.o.	1,911	6,205	2,639	3,566	29,402	1,400	18	3.83
HTC Communication Canada, Ltd.	46,091	73,884	2,507	71,377	4,350	207	(284)	(0.19)
HTC Communication Sweden AB	3,431	6,016	176	5,840	3,135	149	314	0.31
HTC Luxembourg S.a.r.l.	440	18,397	2,829	15,568	-	(1,848)	(1,184)	(94.72)
HTC Middle East FZ-LLC	29,279	90,158	35,386	54,772	191,808	3,849	3,097	884.86
HTC Communication Solutions Mexico, S.A DE C. V.	78	34,320	27,861	6,459	33,003	1,116	667	13.34
HTC Servicios DE Operation Mexico, S.A DE C. V.	78	19,034	14,085	4,949	28,188	688	482	9.64
HTC America Holding Inc.	8,177,387	8,694,439	4,832	8,689,607	-	(188,544)	(234,425)	(0.64)
HTC America Inc.	5,162,220	7,759,719	114,197	7,645,522	7,955,021	145,989	(110,222)	(110,222)
One & Company Design, Inc.	1,106	3,004	65	2,939	-	(783)	(748)	(12.47)
HTC America Innovation Inc.	92,183	569,659	51,113	518,546	436,552	20,781	53,909	53,909.00
HTC America Content Services, Inc.	1,017,080	537,575	180,475	357,100	65,712	(395,951)	(423,728)	(13,668.65)
Dashwire, Inc.	0.003	2,254	57,333	(55,079)	-	(85)	(81)	(810.00)
Inquisitive Minds, Inc.	0.031	38,277	4,044	34,233	533	(3,478)	(3,418)	(34,180.00)
HTC VIVE TECH BVI Corp.	215,093	210,452	-	210,452	-	10,506	10,211	0.15
HTC VIVE TECH Corp.	1,000	733	-	733	-	(60)	(60)	(0.60)
HTC VIVE TECH HK Limited	208,947	208,441	-	208,441	-	-	10,540	2.64
HTC VIVE TECH Beijing Limited	24,582	25,362	2,292	23,070	-	(1,444)	(219)	-
HTC VIVE TECH UK Limited	24,582	185,425	78	185,347	-	(506)	10,760	3.06
DeepQ BVI Corp.	214,171	196,617	-	196,617	-	(8,991)	(8,878)	(0.17)
DeepQ Technology Corp.	115,000	114,989	11,539	103,450	6,455	(10,957)	(10,928)	(0.18)
DeepQ Technology (Beijing) Co., Ltd	92,183	87,683	47	87,636	-	(3,770)	2,078	-
VRChat. Inc.	275,964	240,117	693	240,810	-	(73,844)	(90,433)	(2.81)
Uomo vitruviano Corp.	10,000	11,319	1,113	10,206	2,019	299	246	0.83
VRChat. Ca. Development Inc.	36,505	2,454	-	2,454	-	(16,489)	(18,731)	-

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

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

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

- **Affiliates report**

  There were no circumstances requiring preparation of an Affiliates Report.

2. Private Placement Securities in 2018 and as of the Date of This Annual Report:

None.

3. Status of HTC Common Shares and GDRS Acquired, Disposed of, and Held By Subsidiaries in 2018 as of the Date of This Annual Report:

None.

4. Any Events in 2018 as of the Date of This Annual Report: That Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 3 of Article 36 of Securities and Exchange Law of Taiwan:

None.

5. Other Necessary Supplement:

None.

8

FINANCIAL INFORMATION

FINANCIAL INFORMATION

1. Abbreviated Balance Sheets for the Past Five Fiscal Years

(1) Abbreviated Balance Sheets - IFRS

Unit: NT$ thousands

Item		Year 2018	2017	2016	2015	2014
Current Assets		28,067,272	15,795,358	41,119,540	58,086,219	85,050,267
Properties		7,638,244	9,742,069	10,501,997	13,152,866	18,660,108
Intangible Assets		33,668	72,384	309,321	622,138	1,222,721
Other Assets		34,152,320	39,416,734	50,679,456	55,613,798	58,079,118
Total Assets		69,891,504	65,026,545	102,610,314	127,475,021	163,012,214
Current Liabilities	Before Appropriation	24,566,928	31,295,988	50,831,122	62,664,620	82,556,301
	After Appropriation	*	31,295,988	50,831,122	62,664,620	82,870,937
Non-current Liabilities		155,738	34,981	7,686	18,306	122,540
Total Liabilities	Before Appropriation	24,722,666	31,330,969	50,838,808	62,682,926	82,678,841
	After Appropriation	*	31,330,969	50,838,808	62,682,926	82,993,477
Capital Stock		8,188,135	8,208,261	8,220,087	8,318,695	8,349,521
Capital Surplus		15,576,268	15,551,491	15,614,641	15,505,853	15,140,687
Retained Earnings	Before Appropriation	24,491,992	12,204,252	29,139,080	40,080,087	59,531,103
	After Appropriation	*	12,204,252	29,139,080	40,080,087	59,216,467
Other Equity		(3,087,557)	(2,268,428)	(1,202,302)	1,088,415	1,062,118
Treasury Stock		-	-	-	(200,955)	(3,750,056)
Total Stockholders' Equity	Before Appropriation	45,168,838	33,695,576	51,771,506	64,792,095	80,333,373
	After Appropriation	*	33,695,576	51,771,506	64,792,095	80,018,737

* Subject to change after 2019 shareholders' meeting resolution

(2) Abbreviated Consolidated Balance Sheets - IFRS

Unit: NT$ thousand

Item		Year 2018	2017	2016	2015	2014	As of 2019.03.31
Current Assets		48,460,206	38,489,385	68,562,382	86,439,402	110,286,950	45,187,275
Properties		8,425,886	10,798,613	12,025,496	15,432,130	23,435,556	8,336,668
Intangible Assets		1,181,256	2,315,441	3,878,356	5,561,444	7,209,291	884,542
Other Assets		9,643,471	14,981,967	18,682,948	21,960,107	22,906,477	10,276,541
Total Assets		67,710,819	66,585,406	103,149,182	129,393,083	163,838,274	64,685,026
Current Liabilities	Before Appropriation	22,317,100	32,807,450	51,274,276	64,473,478	83,258,739	20,907,665
	After Appropriation	*	32,807,450	51,274,276	64,473,478	83,573,375	*
Non-Current Liabilities		173,851	52,828	103,400	127,510	246,162	403,624
Total Liabilities	Before Appropriation	22,490,951	32,860,278	51,377,676	64,600,988	83,504,901	21,311,289
	After Appropriation	*	32,860,278	51,377,676	64,600,988	83,819,537	*
Capital Stock		8,188,135	8,208,261	8,220,087	8,318,695	8,349,521	8,188,119
Capital Surplus		15,576,268	15,551,491	15,614,641	15,505,853	15,140,687	15,564,532
Retained Earnings	Before Appropriation	24,491,992	12,204,252	29,139,080	40,080,087	59,531,103	22,048,017
	After Appropriation	*	12,204,252	29,139,080	40,080,087	59,216,467	*
Other Equity		(3,087,557)	(2,268,428)	(1,202,302)	1,088,415	1,062,118	(2,466,603)
Treasury Stock		-	-	-	(200,955)	(3,750,056)	-
Non-Controlling Interest		51,030	29,552	-	-	-	39,672
Total Stockholders' Equity	Before Appropriation	45,219,868	33,725,128	51,771,506	64,792,095	80,333,373	43,373,737
	After Appropriation	*	33,725,128	51,771,506	64,792,095	80,018,737	*

* Subject to change after 2019 shareholders' meeting resolution

2. Abbreviated Income Statements for the Past Five Fiscal Years

(1) Abbreviated Income Statement – IFRS

Unit: NT$ thousands,
except (Loss) Earning per share

Item	Year 2018	2017	2016	2015	2014
Revenues	22,205,824	59,333,893	74,228,118	117,083,037	174,793,564
Gross Profit	(750,644)	(568,623)	7,368,471	16,250,255	31,264,301
Operating (Loss) Income	(12,437,947)	(15,591,825)	(11,462,190)	(13,625,809)	481,485
Non-operating Income and Expenses	29,437,368	(1,865,626)	369,761	(3,155,735)	1,049,730
Net (Loss) Income Before Tax	16,999,421	(17,457,451)	(11,092,429)	(16,781,544)	1,531,215
Net (Loss) Income from Continuing Operations	12,068,202	(16,905,713)	(10,560,103)	(15,533,068)	1,483,046
Non-Continuing Operations Loss	-	-	-	-	-
Net (Loss) Income	12,068,202	(16,905,713)	(10,560,103)	(15,533,068)	1,483,046
Other Comprehensive Income and Loss For The Year – Net of Income Tax	(568,106)	(1,299,573)	(2,455,613)	(43,307)	873,654
Total Comprehensive (Loss) Income For The Year	11,500,096	(18,205,286)	(13,015,716)	(15,576,375)	2,356,700
Basic (Loss) Earnings Per Share	14.72	(20.58)	(12.81)	(18.79)	1.80
Diluted (Loss) Earnings Per Share	14.50	(20.58)	(12.81)	(18.79)	1.80

(2) Abbreviated Consolidated Statements of Comprehensive income – IFRS

Unit: NT$ thousands,
except (Loss) Earning per share

Item	Year 2018	2017	2016	2015	2014	As of 2019. 03.31
Revenue	23,740,610	62,119,814	78,161,158	121,684,231	187,911,200	2,943,626
Gross Profit	515,018	1,339,692	9,434,591	21,953,107	40,755,095	431,429
Operating (Loss) Income	(13,963,613)	(17,425,517)	(14,608,064)	(14,203,146)	668,770	(2,734,212)
Non-operating Income and Expenses	31,192,095	466,682	4,024,116	(1,378,394)	1,314,656	277,725
Net (Loss) Income Before Tax	17,228,482	(16,958,835)	(10,583,948)	(15,581,540)	1,983,426	(2,456,487)
Net (Loss) Income from Continuing Operations	12,024,901	(16,920,359)	(10,560,103)	(15,533,068)	1,483,046	(2,455,505)
Non-Continuing Operations Loss	-	-	-	-	-	-
Net (Loss) Income	12,024,901	(16,920,359)	(10,560,103)	(15,533,068)	1,483,046	(2,455,505)
Other Comprehensive Income and Loss for the Period, Net of Income Tax	(565,847)	(1,299,051)	(2,455,613)	(43,307)	873,654	615,437
Total Comprehensive (Loss) Income for the Period	11,459,054	(18,219,410)	(13,015,716)	(15,576,375)	2,356,700	(1,840,068)
Allocations of Profit or Loss for the Period Attributable to: Owners of the Parent	12,068,202	(16,905,713)	(10,560,103)	(15,533,068)	1,483,046	(2,443,975)
Allocations of Profit or Loss for the Period Attributable to: Non-controlling Interest	(43,301)	(14,646)	-	-	-	(11,530)
Allocations of Total Comprehensive Income for the Period Attributable to: Owners of the Parent	11,500,096	(18,205,286)	(13,015,716)	(15,576,375)	2,356,700	(1,828,710)
Allocations of Total Comprehensive Income for the Period Attributable to: Non-controlling Interest	(41,042)	(14,124)	-	-	-	(11,358)
Basic Earnings (Loss) Per Share	14.72	(20.58)	(12.81)	(18.79)	1.80	(2.98)
Diluted Earnings (Loss) Per Share	14.50	(20.58)	(12.81)	(18.79)	1.80	(2.98)

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

Year	CPA Firm	Certified Public Accountant	Auditor's Opinion
2014	Deloitte & Touche	Wen-Yea Shyu and Kwan-Chung Lai	Unqualified Opinion
2015	Deloitte & Touche	Wen-Yea Shyu and Kwan-Chung Lai	Unqualified Opinion
2016	Deloitte & Touche	Wen-Yea Shyu and Kwan-Chung Lai	Unqualified Opinion
2017	Deloitte & Touche	Wen-Yea Shyu and Kwan-Chung Lai	Unqualified Opinion
2018	Deloitte & Touche	Wen-Yea Shyu and Kwan-Chung Lai	Unqualified Opinion with emphasis matter

3. Financial Analysis for the Past Five Fiscal Years

(1) Financial Analysis – IFRS

Item		Year 2018	2017	2016	2015	2014
Capital Structure Analysis	Debt Ratio (%)	35	48	50	49	51
	Long-term Fund to Fixed Assets Ratio (%)	593	346	493	493	431
Liquidity Analysis	Current Ratio (%)	114	50	81	93	103
	Quick Ratio (%)	101	26	54	62	80
	Debt Services Coverage Ratio (%)	8892	(558)	(2,150)	(2,145)	94
Operating Performance Analysis	Average Collection Turnover(Times)	12.58	7.81	5.04	4.81	5.65
	Days Sales Outstanding	29	47	72	76	65
	Average Inventory Turnover (Times)	2.87	4.39	3.86	5.68	7.66
	Average Payment Turnover (Times)	1.64	2.74	2.28	2.61	3.65
	Average Inventory Turnover Days	127	83	95	64	48
	Fixed Assets Turnover (Times)	2.56	5.86	6.28	7.36	9.10
	Total Assets Turnover (Times)	0.33	0.71	0.65	0.81	1.06
Profitability Analysis	Return on Total Assets (%)	17.89	(20.13)	(9.18)	(10.69)	0.90
	Return on Equity (%)	30.60	(39.56)	(18.12)	(21.41)	1.88
	Ratio of income before tax to paid-in capital (%)	207.61	(212.68)	(134.94)	(202)	18.34
	Net Margin (%)	54.35	(28.49)	(14.23)	(13.27)	0.85
	Basic Earnings Per Share (NT$)	14.72	(20.58)	(12.81)	(18.79)	1.80
Cash Flow	Cash Flow Ratio (%)	(48.38)	(54.61)	(24.22)	(20.87)	0.72
	Cash Flow Adequacy Ratio (%)	(862.49)	(567.10)	(31.85)	94.56	110.33
	Cash Flow Reinvestment Ratio (%)	(22.47)	(38.73)	(19.80)	(17.81)	0.65
Leverage	Operating Leverage	0.19	0.06	(0.37)	(0.71)	37.00
	Financial Leverage	1	1	1	1	1

1. Capital Structure & Liquidity Analyses

In the year of 2018, the company persisted in streamlining operational scale, in reducing the payables for purchases and operating expenses, and in proactively seeking for operating funds. The deal of collaboration agreement with Google in the beginning of the year generated huge amount of cash flow, which led to the increase of current assets. Besides the decrease in debt ratio, other ratios were in an uptrend.

2. Operating Performance Analysis

The industrial environment was under intense competition in 2018, so with various substitute products in market, the revenue declined and each ratio showed a downtrend.

3. Profitability Analysis

As a result of huge non-operation revenues, it showed a turn from loss to profit during this period. The overall profitability raised in 2018 further than that in 2017.

4. Cash Flow Analysis

The year 2018 showed a turn from loss to profit. Cash used in operational activities decreased in 2018 compared with that in 2017. Therefore, the cash flow ratio and cash reinvestment ration has slightly picked up in respective aspect. In addition, in recent years the company has striven to decrease capital expenditures and fortify inventory clearance in order for transition. The cash flow adequacy ratio, consequently, decreased.

(2) Consolidated Financial Analysis - IFRS

Item		Year 2018	2017	2016	2015	2014	As of 2019.03.31
Capital Structure Analysis	Debt Ratio (%)	33	49	50	50	51	33
	Long-term Fund to Fixed Assets Ratio (%)	538	313	431	420	343	525
Liquidity Analysis	Current Ratio (%)	217	117	134	134	132	216
	Quick Ratio (%)	197	84	103	98	104	196
	Debt Services Coverage Ratio (%)	8,998	(508)	(1,997)	(1,917)	118	(659)
Operating Performance Analysis	Average Collection Turnover (Times)	4.28	4.80	4.07	4.53	6.41	6.10
	Days Sales Outstanding	85	76	90	81	57	60
	Average Inventory Turnover (Times)	2.68	4.10	3.48	4.80	6.34	1.94
	Average Payment Turnover (Times)	1.91	2.98	2.46	2.72	3.27	1.06
	Average Inventory Turnover Days	136	89	105	76	58	188
	Fixed Assets Turnover (Times)	2.47	5.44	5.69	6.26	7.67	1.40
	Total Assets Turnover (Times)	0.35	0.73	0.67	0.83	1.12	0.18
Profitability Analysis	Return on Total Assets (%)	17.91	(19.90)	(9.08)	(10.59)	0.88	(3.70)
	Return on Equity (%)	30.50	(39.60)	(18.12)	(21.41)	1.88	(5.55)
	Ratio of income before tax to paid-in capital (%)	210.41	(206.61)	(128.76)	(187.31)	23.75	(30.00)
	Net Margin (%)	50.65	(27.24)	(13.51)	(12.77)	0.79	(83.42)
	Basic Earnings Per Share (NT$)	14.72	(20.58)	(12.81)	(18.79)	1.80	(2.98)
Cash Flow	Cash Flow Ratio (%)	(42.55)	(57.94)	(18.76)	(20.24)	(0.41)	(13.86)
	Cash Flow Adequacy Ratio (%)	(646.86)	(480.86)	(30.23)	88.82	105.69	(815.78)
	Cash Flow Reinvestment Ratio (%)	(17.62)	(38.56)	(14.49)	(16. 91)	(0.36)	(5.59)
Leverage	Operating Leverage	0.19	0.06	(0.37)	(0.71)	37.00	(0.05)
	Financial Leverage	1	1	1	1	1	1

1. Capital Structure & Liquidity Analyses

In the year of 2018, the company persisted in streamlining operational scale, in reducing the payables for purchases and operating expenses, and in proactively seeking for operating funds. The deal of collaboration agreement with Google in the beginning of the year generated huge amount of cash flow, which led to the increase of current assets. Besides the decrease in debt ratio, other ratios were in an uptrend.

2. Operating Performance Analysis

The industrial environment was under intense competition in 2018, so with various substitute products in market, the revenue declined and each ratio showed a downtrend.

3. Profitability Analysis

As a result of huge non-operation revenues, it showed a turn from loss to profit during this period. The overall profitability raised in 2018 further than that in 2017.

4. Cash Flow Analysis

The year 2018 showed a turn from loss to profit. Cash used in operational activities decreased in 2018 compared with that in 2017. Therefore, the cash flow ratio and cash reinvestment ration has slightly picked up in respective aspect. In addition, in recent years the company has striven to decrease capital expenditures and fortify inventory clearance in order for transition. The cash flow adequacy ratio, consequently, decreased.

4. 2018 Supervisors' Report

HTC CORPORATION
SUPERVISORS AUDIT REPORT

The Board of Directors has prepared the Company's 2018 Business Report, Financial Statements and proposal for allocation of earnings. HTC Corporation's Financial Statements have been audited and certified by Hsu, Wen-Ya, CPA, AND Lai Guan-Jhong, CPA, of Deloitte & Touche and an audit report relating to the Financial Statements had been issued. The Business Report, Financial Statements and proposal for allocation of earnings have been reviewed and considered to be complied with relevant rules by the undersigned, the supervisor of HTC Corporation. According to relevant requirements of the Securities and Exchange Act and the Company Law.

HTC CORPORATION
Supervisor:
Huang-Chieh Chu

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

May 10, 2019

5. INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
HTC Corporation

Opinion

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

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of HTC Corporation as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in Taiwan, the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of HTC Corporation 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 parent company only financial statements, HTC Corporation initially applied the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers. As a result of the retrospective application of the accounting policies, HTC Corporation has performed an assessment of the classification of recognized financial assets and has elected not to restate its parent company only financial statements of the prior reporting period 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 parent company only financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Valuation of Inventories

HTC Corporation's operations is mainly focus on the research, design, manufacture and sale of smart mobile devices and virtual reality devices, and the balance of inventories amounted to NT$2,784,808 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 HTC Corporation's parent company only 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 original 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$7,638,244 thousand, NT$567,904 thousand, NT$33,668 thousand and NT$3,827,502 thousand, respectively. HTC Corporation 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 HTC Corporation's 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's 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 in testing 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, 16, 18 and 26.

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. Due to the sale conditions applied to certain customers, which represents around 51% of HTC Corporation's parent company only operating revenue of the current year, are more complicated than the others, revenue recognition turns to be rather complex for such customer. 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's revenue recognition. We checked compliance with the accounting policy on revenue recognition by reviewing the relevant contracts. For ensuring HTC Corporation's compliance with IFRS 15, samples from the recognized revenue have been selected to verify if the conditions of revenue recognition were met.

Major Transaction

According to the disclosure in Note 25, HTC Corporation signed a business cooperation agreement (the "Agreement") with Google Inc. ("Google") on September 21, 2017. According to the Agreement, a part of HTC Corporation's 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 aforementioned major transactions 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's compliance with IFRS 15.

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

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

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

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

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 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 parent company only financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in Taiwan, the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such parent company only financial statements are those generally applied in Taiwan, the Republic of China.

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

HTC CORPORATION

PARENT COMPANY ONLY BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 13,445,203	19	$ 5,464,879	8
Financial assets at fair value through profit or loss - current (Notes 7 and 31)	83,411	-	65,199	-
Trade receivables, net (Note 12)	75,940	-	1,247,623	2
Trade receivables - related parties, net (Notes 12 and 32)	377,736	1	946,098	2
Other receivables (Note 12)	87,323	-	38,413	-
Current tax assets (Note 26)	33,312	-	41,962	-
Inventories (Note 13)	2,784,808	4	6,673,385	10
Prepayments (Notes 14)	536,332	1	1,035,501	2
Other current financial assets (Notes 11 and 33)	10,642,639	15	149,195	-
Other current assets	568	-	133,103	-
Total current assets	28,067,272	40	15,795,358	24
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Note 9)	290,109	1	-	-
Available-for-sale financial assets - non-current (Note 31)	-	-	91	-
Financial assets measured at cost - non-current (Notes 10 and 31)	-	-	510,292	1
Investments accounted for using equity method (Note 15)	27,399,557	39	27,704,536	43
Property, plant and equipment (Notes 16 and 32)	7,638,244	11	9,742,069	15
Investment properties, net (Note 17)	2,090,226	3	-	-
Intangible assets (Note 18)	33,668	-	72,384	-
Deferred tax assets (Note 26)	3,827,502	6	8,867,425	14
Refundable deposits (Note 31)	89,358	-	87,727	-
Net defined benefit asset - non-current (Note 22)	270,358	-	19,811	-
Other non-current financial assets (Notes 11 and 33)	153,638	-	-	-
Other non-current assets (Note 14)	31,572	-	2,226,852	3
Total non-current assets	41,824,232	60	49,231,187	76
TOTAL	$69,891,504	100	$ 65,026,545	100

(Continued)

(Concluded)

	2018		2017	
LIABILITIES AND EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 7 and 31)	$ 82,156	-	$ 75,184	-
Note and trade payables (Notes 19 and 32)	12,121,891	17	15,296,408	24
Other payables (Notes 20 and 32)	9,506,714	14	11,908,114	18
Current tax liabilities (Note 26)	11,634	-	11,306	-
Provisions - current (Note 21)	1,865,066	3	3,187,020	5
Other current liabilities (Note 20)	979,467	1	817,956	1
Total current liabilities	24,566,928	35	31,295,988	48
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 26)	32,685	-	33,716	-
Guarantee deposits received (Note 31)	123,053	-	1,265	-
Total non-current liabilities	155,738	-	34,981	-
Total liabilities	24,722,666	35	31,330,969	48
EQUITY (Note 23)				
Share capital - ordinary shares	8,188,135	12	8,208,261	13
Capital surplus	15,576,268	22	15,551,491	24
Retained earnings				
Legal reserveLegal reserve	18,297,655	26	18,297,655	28
Unappropriated earnings (accumulated deficits)	6,194,337	9	(6,093,403)	(9)
Other equity	(3,087,557)	(4)	(2,268,428)	(4)
Total equity	45,168,838	65	33,695,576	52
TOTAL	$ 69,891,504	100	$ 65,026,545	100

(Concluded)

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

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

HTC CORPORATION

PARENT COMPANY ONLY 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 Amount	2018 %	2017 Amount	2017 %
OPERATING REVENUE (Notes 8, 24 and 32)	$ 22,205,824	100	$ 59,333,893	100
OPERATING COST (Notes 13, 25 and 32)	22,956,468	103	59,902,516	101
GROSS LOSS	(750,644)	(3)	(568,623)	(1)
UNREALIZED GAIN	(178,837)	(1)	(194,475)	-
REALIZED GAIN	194,475	1	688,022	1
REALIZED GROSS LOSS	(735,006)	(3)	(75,076)	-
OPERATING EXPENSES (Notes 25 and 32)				
Selling and marketing	2,901,809	13	3,354,047	6
General and administrative	2,886,634	13	2,715,607	5
Research and development	5,914,498	27	9,447,095	16
Total operating expenses	11,702,941	53	15,516,749	27
LOSS FROM OPERATIONS	(12,437,947)	(56)	(15,591,825)	(27)
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 25)	926,592	4	377,293	1
Other gains and losses (Notes 8, 14, 16, 18 and 25)	28,908,025	130	855,945	1
Finance costs	(1,912)	-	(31,251)	-
Share of the profit or loss of subsidiaries (Note 15)	(395,337)	(2)	(3,067,613)	(5)
Total non-operating income and expenses	29,437,368	132	(1,865,626)	(3)
PROFIT (LOSS) BEFORE INCOME TAX	16,999,421	76	(17,457,451)	(30)
INCOME TAX (EXPENSE) BENEFIT (Note 26)	(4,931,219)	(22)	551,738	(1)
PROFIT (LOSS) FOR THE YEAR	12,068,202	54	(16,905,713)	(29)

(Continued)

(Concluded)

	2018 Amount	2018 %	2017 Amount	2017 %
OTHER COMPREHENSIVE INCOME AND LOSS				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans (Note 22)	$ 179,401	1	$ (32,368)	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(185,240)	(1)	-	-
Share of the profit or loss of subsidiaries - items that will not be reclassified to profit or loss	(671,867)	(3)	(632)	-
Income tax relating to the components of other comprehensive loss - items that will not be reclassified to profit or loss (Note 26)	(21,529)	-	3,885	-
	(699,235)	(3)	(29,115)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	131,129	1	(1,401,850)	(2)
Unrealized gain on available-for-sale financial assets	-	-	5	-
Share of the profit or loss of subsidiaries - items that may be reclassified to profit or loss	-	-	131,387	-
	131,129	1	(1,270,458)	(2)
Other comprehensive loss for the year, net of income tax	(568,106)	(2)	(1,299,573)	(2)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ 11,500,096	52	$ (18,205,286)	(31)
EARNINGS (LOSS) PER SHARE (Note 27)				
Basic	$ 14.72		$ (20.58)	
Diluted	$ 14.50		$ (20.58)	

(Concluded)

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

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

HTC CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

					Other Equity				
	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 on Available-for-sale Financial Assets	Unearned Employee Benefit	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
Net loss for the year ended December 31, 2017	-	-	-	(16,905,713)	-	-	-	-	(16,905,713)
Other comprehensive income and loss for the year ended December 31, 2017	-	-	-	(29,115)	(1,401,850)	-	131,392	-	(1,299,573)
Issuance of share from exercise of employee share options	100	445	-	-	-	-	-	-	545
Share-based payments	(11,926)	(63,595)	-	-	-	-	-	204,332	128,811
BALANCE, DECEMBER 31, 2017	8,208,261	15,551,491	18,297,655	(6,093,403)	(2,183,148)	-	(35,690)	(49,590)	33,695,576
Effect of retrospective application	-	-	-	104,732	-	(171,354)	35,690	-	(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
Net income for the year ended December 31, 2018	-	-	-	12,068,202	-	-	-	-	12,068,202
Other comprehensive income and loss for the year ended December 31, 2018	-	-	-	157,872	131,129	(857,107)	-	-	(568,106)
Changes in capital surplus from investments in associates accounted for using the equity method	-	60,873	-	-	-	-	-	-	60,873
Issuance of shares from exercise of employee share options	1,490	6,631	-	-	-	-	-	-	8,121
Changes in percentage of ownership interests in subsidiaries	-	-	-	(43,066)	-	-	-	-	(43,066)
Share-based payments	(21,616)	(42,727)	-	-	-	-	-	42,513	(21,830)
BALANCE, DECEMBER 31, 2018	$ 8,188,135	$ 15,576,268	$ 18,297,655	$ 6,194,337	$ (2,052,019)	$ (1,028,461)	$ -	$ (7,077)	$ 45,168,838

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

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

HTC CORPORATION

PARENT COMPANY ONLY 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	$ 16,999,421	$ (17,457,451)
Adjustments for		
Depreciation expenses	444,813	716,572
Amortization expenses	59,143	237,503
Expected credit loss recognized (reversed) on trade receivables	82,964	(362,870)
Finance costs	1,912	31,251
Interests income	(304,487)	(76,579)
Compensation costs of employee share-based payments (reversed)	(20,812)	129,647
Share of the profit or loss of subsidiaries	395,337	3,067,613
Net gain on disposal of property, plant and equipment	(162,272)	-
Net gain on disposal of assets and licensing income (Note 25)	(31,285,385)	-
Net gain on disposal of subsidiaries	(15,396)	-
Impairment loss on financial assets	-	5,569
Impairment loss on non-financial assets	3,226,337	5,757,281
Unrealized gain on sales	178,837	194,475
Realized gain on sales	(194,475)	(688,022)
Changes in operating assets and liabilities		
(Increase) decrease in financial instruments held for trading	(11,240)	20,207
Decrease in trade receivables	1,088,719	4,066,747
Decrease in trade receivables - related parties	568,362	5,713,076
(Increase) decrease in other receivables	(34,966)	44,682
Decrease in inventories	2,915,139	453,086
Decrease in prepayments	499,169	49,195
Decrease (increase) in other current assets	132,535	(68,404)
(Increase) decrease in other non-current assets	(126,535)	336,098
Decrease in note and trade payables	(3,174,517)	(12,154,713)
Decrease in other payables	(2,370,891)	(5,910,360)
(Decrease) increase in provisions	(1,321,954)	121,431
Increase (decrease) in other current liabilities	161,511	(1,501,569)
Cash used in operations	(12,268,731)	(17,275,535)
Interest received	290,543	78,198
Interest paid	(1,912)	(31,251)
Income tax return	95,122	138,185
Net cash used in operating activities	(11,884,978)	(17,090,403)

(Continued)

(Concluded)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash inflow on disposal of subsidiary	$ 410,857	$ -
Payments for property, plant and equipment	(542,923)	(178,538)
Proceeds from disposal of property, plant and equipment	250,199	-
Increase in refundable deposits	(1,631)	-
Decrease in refundable deposits	-	1,347,664
Payments for intangible assets	(29,384)	(566)
Increase in other current financial assets	(10,647,082)	(36,252)
Dividend received	-	4,421
Proceeds from disposal of assets and licensing income (Note 25)	31,285,385	-
Net cash generated from investing activities	20,725,421	1,136,729
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from guarantee deposits received	121,788	-
Refund of guarantee deposits received	-	(203)
Proceeds from exercise of employee share options	8,121	545
Net cash outflow on acquisition of subsidiaries	(1,257,159)	(225,632)
Capital reduction of subsidiaries	267,131	6,344,570
Net cash (used in) generated from financing activities	(860,119)	6,119,280
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,980,324	(9,834,394)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	5,464,879	15,299,273
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 13,445,203	$ 5,464,879

(Concluded)

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

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

HTC CORPORATION

NOTES TO PARENT COMPANY ONLY 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 (the Company) was incorporated on May 15, 1997 under the Company Law of Taiwan, the Republic of China. HTC is engaged in designing, manufacturing, assembling, processing, and selling smart mobile and virtual reality devices and provide with after-sales service.

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

The parent company only financial statements are presented in the Company's functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the Company's Board of Directors and authorized for issue on March 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 amendment

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.

	Measurement Category		Carrying Amount		
Financial Assets	IAS 39	IFRS 9	IAS 39	IFRS 9	Remark
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 5,464,879	$ 5,464,879	a)
Derivatives	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	65,199	65,199	b)
Equity instruments	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI)	510,383	475,349	c)
Time deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	149,195	149,195	a)
Trade receivables and other receivables	Loans and receivables	Amortized cost	2,232,134	2,232,134	a)
Refundable deposits	Loans and receivables	Amortized cost	87,727	87,727	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
FVTPL	$ -	$ 65,199	$ -	$ 65,199	$ -	$ -	b)
Add: From available for sale (IAS 39) - mandatory reclassification	65,199	(65,199)	-	-	-	-	b)
FVTOCI	-	510,383	(35,034)	475,349	5,569	(5,569)	c)
Add: Reclassification from available for sale (IAS 39) - equity instruments	510,383	(510,383)	-	-	-	-	c)
Amortized cost	-	7,933,935	-	7,933,935	-	-	a)
Add: Reclassification from loans and receivables (IAS 39)	7,933,935	(7,933,935)	-	-	-	-	a)
Effect of investments accounted for using the equity method	27,704,536	-	4,102	27,708,638	99,163	(130,095)	d)

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.

b) Derivatives that previously classified as held-for-trading under IAS 39 were mandatorily classified as measured at FVTPL under IFRS 9.

c) 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$91 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$475,258 and a decrease of NT$35,034 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 NT$5,569 thousand in other equity - unrealized gains or losses on financial assets at FVTOCI and an increase of NT$5,569 thousand in retained earnings on January 1, 2018.

d) Investments in equity instruments under equity method 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$4,102 thousand were recognized in 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 under equity method 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 NT$130,095 thousand in other equity - unrealized gains or losses on financial assets at FVTOCI and an increase of NT$99,163 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 parent company only 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 parent company only 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 parent company only 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 parent company only 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	$ -	$ 76,228	$ 76,228
Total effect on assets	$ -	$ 76,228	$ 76,228
Lease liabilities - current	$ -	$ 20,400	$ 20,400
Lease liabilities - non-current	-	55,828	55,828
Total effect on liabilities	$ -	$ 76,228	$ 76,228

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 parent company only 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 parent company only 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

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis of Preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values.

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

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

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries, associates and jointly controlled entities. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its parent company only financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and parent company only basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries, associates and joint ventures, share of other comprehensive income of subsidiaries, associates and joint ventures and unappropriated earnings (accumulated deficits), as appropriate, in the parent company only financial statements.

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

Classification of Current and Non-current Assets and Liabilities

Current assets include:

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

Current liabilities are:

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

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

Business Combinations

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

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

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

Foreign Currencies

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

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

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

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

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

For the purposes of presenting the parent company only financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

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

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

Inventories

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

Investments in Subsidiaries

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

Subsidiaries are the entities controlled by the Company.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

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

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and side stream transactions between subsidiaries are recognized in the Company' parent company only financial statements only to the extent of interests in the subsidiary 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 initially measured 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.

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. The Company's amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

Intangible assets acquired in a business combination

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

Derecognition of intangible assets

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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.

Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at 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 31.

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 31.

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 31.

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 parent company only financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. 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, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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

a. 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$2,252,899 thousand and NT$203,927 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$2,784,808 thousand and NT$6,673,385 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$3,827,502 thousand and NT$8,867,425 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	$ 1,035	$ 1,085
Checking accounts and demand deposits	990,072	3,714,959
Time deposits (with original maturities less than three months)	12,454,096	1,748,835
	$ 13,445,203	$ 5,464,879

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

	December 31	
	2018	2017
Bank balance	0.01%-0.62%	0.01%-0.59%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSSFINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
Financial assets		
Financial assets held for trading Derivative financial assets (not under hedge accounting)		
Foreign exchange contracts	$ 83,411	$ 165,199

(Continued)

(Concluded)

	December 31	
	2018	2017
Financial liabilities - current		
Financial liabilities held for trading Derivative financial liabilities (not under hedge accounting)		
Foreign exchange contracts	$ 82,156	$ 75,184

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
December 31, 2018					
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	2019.1.23-2019.3.6	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/NTD	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
December 31, 2017					
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 statements of comprehensive income:

	For the Year Ended December 31, 2017
Revenue	$(4,389)
Other gains and losses	3,538
	$(851)

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	$ 225
Unlisted shares	289,884
	$ 290,109

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 Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

10. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
Domestic unlisted equity investment	$ 510,292
Classified according to financial asset measurement categories	
Available-for-sale financial assets	$ 510,292

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

For the year ended December 31, 2017, the Company determined that the recoverable amounts of financial assets measured at cost were less than its carrying amounts, and thus recognized an impairment loss of NT$5,569 thousand classified as other gains and losses, refer to Note 25.

11. OTHER FINANCIAL ASSETS

	December 31	
	2018	2017
Time deposits with original maturities of more than three months	$ 10,796,277	$ 149,195
Current	$ 10,642,639	$ 149,195
Non-current	153,638	-
	$ 10,796,277	$ 149,195

For details of pledged other financial assets, refer to Note 33.

12. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2018	2017
Trade and overdue receivables		
At amortized cost		
Trade receivables	$ 448,562	$ 1,756,675
Trade receivables - related parties	377,736	946,098
Overdue receivables	1,840,947	1,840,947
Less: Allowances for impairment loss	(372,622)	(509,052)
Less: Allowances for impairment loss - overdue receivables	(1,840,947)	(1,840,947)
	$ 453,676	$ 2,193,721
Other receivables		
VAT refund receivables	$ 57,209	$ 365
Interest receivables	14,923	979
Others	15,191	37,069
	$ 87,323	$ 38,413

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	0.52%	4.67%	44.37%	100%	
Gross carrying amount	$ 303,863	$ 79,247	$ 136,367	$ 306,821	$ 826,298
Loss allowance (Lifetime ECL)	(1,595)	(3,697)	(60,509)	(306,821)	(372,622)
Amortized cost	$ 302,268	$ 75,550	$ 75,858	$ -	$ 453,676

The movements of the loss allowance of trade 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	-
Balance at January 1, 2018 (per IFRS 9)	2,349,999
Add: Net remeasurement of loss allowance	82,964
Less: Amounts written off	(219,394)
Balance at December 31, 2018	$ 2,213,569

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	$ 596,220
91-180 days	-
Over 181 days	-
	$ 596,220

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	$ 87,168
91-180 days	-
Over 181 days	-
	$ 87,168

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

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

Movement in the allowances for doubtful debts

	For the Year Ended December 31, 2017
Balance, beginning of the year	$ 2,712,869
Less: Impairment loss reversed	(362,870)
Balance at December 31, 2017	$ 2,349,999

b. Other receivables

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

13. INVENTORIES

	December 31	
	2018	2017
Finished goods	$ 578,776	$ 1,151,632
Work-in-process	36,577	119,720
Semi-finished goods	381,696	1,028,621
Raw materials	1,754,137	4,216,459
Inventory in transit	33,622	156,953
	$ 2,784,808	$ 6,673,385

The cost of inventories recognized as operation costs for the years ended December 31, 2018 and 2017 included inventory write-downs of NT$973,438 thousand and NT$5,558,923 thousand, respectively.

14. PREPAYMENTS

	December 31	
	2018	2017
Prepayments to suppliers	$ 171,601	$ 9,422
Service	115,973	90,714
Software and hardware maintenance	105,605	150,994
Royalties	84,899	2,688,486
Prepaid equipment	12,619	52,539
Others	77,207	270,198
	$ 567,904	$3,262,353
Current	$ 536,332	$ 1,035,501
Non-current	31,572	2,226,852
	$ 567,904	$3,262,353

Prepayments for royalty were primarily for getting royalty right and were classified as current or non-current in accordance with their nature. In December, the Company assessed the book value of some of the prepaid premiums that could not be recovered, and recognized the impairment loss of NT$2,210,749 thousand, which was included in other gains and losses. For details, refer to Notes 25 and 36.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2018	2017
Investment in subsidiaries	$ 27,399,557	$ 27,704,536

Investments in Subsidiaries

	December 31	
	2018	2017
Unlisted equity investments		
H.T.C. (B.V.I.) Corp.	$ 2,584,797	$ 2,708,622
Communication Global Certification Inc.	-	410,075
High Tech Computer Asia Pacific Pte. Ltd.	21,546,647	20,317,998
HTC Investment Corporation	224,352	286,808
PT. High Tech Computer Indonesia	62	62
HTC I Investment Corporation	-	259,140
HTC Holding Cooperatief U.A.	13	13
HTC Investment One (BVI) Corporation	1,194,273	2,281,596
HTC Investment (BVI) Corp.	1,079,959	953,071
HTC VIVE Holding (BVI) Corp.	210,452	149,505
HTC VIVE Investment (BVI) Corp.	308,078	205,496
DeepQ Holding (BVI) Corp.	197,488	120,662
HTC Smartphone (BVI) Corp.	904	942
HTC VR Content (BVI) Corp.	52,532	10,546
	$27,399,557	$27,704,536

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

	December 31	
Name of Subsidiaries	2018	2017
H.T.C. (B.V.I.) Corp.	100.00%	100.00%
Communication Global Certification Inc.	-	100.00%
High Tech Computer Asia Pacific Pte. Ltd.	100.00%	100.00%
HTC Investment Corporation	100.00%	100.00%
PT. High Tech Computer Indonesia	1.00%	1.00%
HTC I Investment Corporation	-	100.00%
HTC Holding Cooperatief U.A.	0.01%	0.01%
HTC Investment One (BVI) Corporation	100.00%	100.00%
HTC Investment (BVI) Corp.	100.00%	100.00%
HTC VIVE Holding (BVI) Corp.	100.00%	100.00%
HTC VIVE Investment (BVI) Corp.	100.00%	100.00%

(Continued)

(Concluded)

	December 31	
Name of Subsidiaries	2018	2017
DeepQ Holding (BVI) Corp.	100.00%	100.00%
HTC Smartphone (BVI) Corp.	100.00%	100.00%
HTC VR Content (BVI) Corp.	100.00%	100.00%

Refer to Note 16 to the consolidated financial statements for the year ended December 31, 2018 for the details of the subsidiaries indirectly held by the Company.

The Company and its subsidiary, PT. High Tech Computer Indonesia and acquired equity interests of 0.01% and 99.99%, respectively, in HTC Holding Cooperatief U.A. As a result, PT. High Tech Computer Indonesia and HTC Holding Cooperatief U.A. are considered as subsidiaries of the Company.

The Company signed a cooperation agreement with Google Inc. (hereinafter referred to as "Google") on September 21, 2017, and sold 100% of the shares of Communication Global Certification Co., Ltd. (hereinafter referred to as "CGC") to Google. For the explanation of the disposal of CGC, refer to Note 31 of the Company's consolidated financial statements for the year ended December 31, 2018.

The share of net income or loss and other comprehensive income from subsidiaries under equity method were accounted for based on the audited financial statements.

16. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2018	2017
Carrying amounts		
Land	$ 4,546,099	$ 4,546,099
Buildings	2,551,107	4,849,703
Machinery and equipment	395,243	151,576
Other equipment	145,795	194,691
	$ 7,638,244	$ 9,742,069

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
Cost					
Balance, beginning of the year	$ 4,546,099	$ 6,905,931	$ 9,840,705	$ 1,312,434	$ 22,605,169
Additions	-	71,700	417,694	62,940	552,334
Disposals	-	(48,387)	(5,266,731)	(290,966)	(5,606,084)
Reclassified as investment properties	-	(2,872,143)	-	-	(2,872,143)
Balance, end of the year	4,546,099	4,057,101	4,991,668	1,084,408	14,679,276
Accumulated depreciation					
Balance, beginning of the year	-	2,056,228	8,975,570	1,108,697	12,140,495
Depreciation expenses	-	177,973	99,429	76,196	353,598
Disposals	-	(37,505)	(4,729,052)	(254,087)	(5,020,644)
Reclassified as investment properties	-	(690,702)	-	-	(690,702)
Balance, end of the year	-	1,505,994	4,345,947	930,806	6,782,747
Accumulated impairment					
Balance, beginning of the year	-	-	713,559	9,046	722,605
Impairment loss	-	-	936	32,257	33,193
Disposals	-	-	(464,017)	(33,496)	(497,513)
Balance, end of the year	-	-	250,478	7,807	258,285
Net book value, end of the year	$ 4,546,099	$ 2,551,107	$ 395,243	$ 145,795	$ 7,638,244

	2017				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Cost					
Balance, beginning of the year	$ 4,546,099	$ 6,852,835	$ 9,836,175	$ 1,295,112	$ 22,530,221
Additions	-	53,096	75,956	25,950	155,002
Disposals	-	-	(71,426)	(8,628)	(80,054)
Balance, end of the year	4,546,099	6,905,931	9,840,705	1,312,434	22,605,169
Accumulated depreciation					
Balance, beginning of the year	-	1,791,595	8,677,650	1,034,732	11,503,977
Depreciation expenses	-	264,633	369,346	82,593	716,572
Disposals	-	-	(71,426)	(8,628)	(80,054)
Balance, end of the year	-	2,056,228	8,975,570	1,108,697	12,140,495
Accumulated impairment					
Balance, beginning of the year	-	-	520,963	3,284	524,247
Impairment loss	-	-	192,596	5,762	198,358
Balance, end of the year	-	-	713,559	9,046	722,605
Net book value, end of the year	$ 4,546,099	$ 4,849,703	$ 151,576	$ 194,691	$ 9,742,069

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$33,193 thousand and NT$198,358 thousand, respectively and classified as other gains and losses. Refer to Note 25 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 17.

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

17. INVESTMENT PROPERTIES, NET

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

	2018	2017
Cost		
Balance, beginning of the year	$ -	$ -
Reclassification	2,872,143	-
Balance, end of the year	2,872,143	-
Accumulated depreciation		
Balance, beginning of the year	-	-
Depreciation expense	91,215	-
Reclassification	690,702	-
Balance, end of the year	781,917	-
Net book value, end of the year	$ 2,090,226	$ -

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 of the investment properties was approved in March 2017 and the assets were reclassified to non-current assets held for sale.

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, 2017
Fair value	$ 2,743,226

18. INTANGIBLE ASSETS

	December 31	
	2018	2017
Carrying amounts		
Patents	$ 3,925	$ 10,309
Other intangible assets	29,743	62,075
	$ 33,668	$ 72,384

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

	2018		
	Patents	Other Intangible Assets	Total
Cost			
Balance, beginning of the year	$ 2,516,290	$ 1,168,297	$ 3,684,587
Additions	-	29,384	29,384
Balance, end of the year	2,516,290	1,197,681	3,713,971
Accumulated amortization			
Balance, beginning of the year	2,394,896	1,106,222	3,501,118
Amortization expenses	6,384	52,759	59,143
Balance, end of the year	2,401,280	1,158,981	3,560,261
Accumulated impairment			
Balance, beginning of the year	111,085	-	111,085
Impairment losses	-	8,957	8,957
Balance, end of the year	111,085	8,957	120,042
Net book value, end of the year	$ 3,925	$ 29,743	$ 33,668

	2017		
	Patents	Other Intangible Assets	Total
Cost			
Balance, beginning of the year	$ 2,516,290	$ 1,174,824	$ 3,691,114
Additions	-	566	566
Eliminations	-	(7,093)	(7,093)
Balance, end of the year	2,516,290	1,168,297	3,684,587

(Continued)

(Concluded)

	2017		
	Patents	Other Intangible Assets	Total
Accumulated amortization			
Balance, beginning of the year	$ 2,387,530	$ 883,178	$ 3,270,708
Amortization expenses	7,366	230,137	237,503
Eliminations	-	(7,093)	(7,093)
Balance, end of the year	2,394,896	1,106,222	3,501,118
Accumulated impairment			
Balance, beginning of the year	111,085	-	111,085
Impairment losses	-	-	-
Balance, end of the year	111,085	-	111,085
Net book value, end of the year	$ 10,309	$ 62,075	$ 72,384

For the year ended December 31, 2018, the Company determined that the carrying amounts of some of intangible assets was expected to be unrecoverable. Thus, it recognized an impairment loss of NT$8,957 thousand and classified as other gains and losses. Refer to Note 25 for detail.

19. NOTE AND TRADE PAYABLES

	December 31	
	2018	2017
Note payables	$ 560	$ 27
Trade payables	12,115,761	15,050,454
Trade payables - related parties	5,570	245,927
	$ 12,121,891	$ 15,296,408

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.

20. OTHER LIABILITIES

	December 31	
	2018	2017
Other payables		
Accrued expenses	$ 9,480,620	$ 11,851,511
Payables for purchase of equipment	26,094	56,603
	$ 9,506,714	$11,908,114

(Continued)

(Concluded)

	December 31	
	2018	2017
Other current liabilities		
Advance receipts	$ 721,990	$ 487,514
Agency receipts	56,529	100,638
Others	200,948	229,804
	$ 979,467	$ 817,956

Accrued Expenses

	December 31	
	2018	2017
Marketing	$ 3,536,208	$ 5,480,213
Services	2,248,376	1,780,144
Salaries, bonuses and compensation	1,955,763	1,765,690
Materials and molding expenses	1,073,179	1,796,104
Import, export and freight	186,182	180,954
Repairs, maintenance and sundry purchase	45,541	76,690
Others	435,371	771,716
	$ 9,480,620	$ 11,851,511

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

21. PROVISIONS

	December 31	
	2018	2017
Warranties	$ 1,804,852	$ 2,605,752
Provisions for contingent loss on purchase orders	60,214	581,268
	$ 1,865,066	$ 3,187,020

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	$ 2,605,752	$ 581,268	$ 3,187,020
Provisions recognized (reversed)	643,394	(408,159)	235,235
Usage	(1,446,923)	(112,895)	(1,559,818)
Effect of foreign currency exchange differences	2,629	-	(2,629)
Balance, end of the year	$ 1,804,852	$ 60,214	$ 1,865,066

	2017		
	Warranty Provision	Provisions for Contingent Loss on Purchase Orders	Total
Balance, beginning of the year	$ 2,692,247	$ 373,342	$ 3,065,589
Provisions recognized	2,988,659	274,159	3,262,818
Usage	(3,067,968)	(66,233)	(3,134,201)
Effect of foreign currency exchange differences	(7,186)	-	(7,186)
Balance, end of the year	$ 2,605,752	$ 581,268	$ 3,187,020

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.

22. RETIREMENT BENEFIT PLANS

Defined Contribution Planss

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The total expenses recognized in the statement of comprehensive income were NT$187,624 thousand and NT$293,585 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$38,415 thousand and NT$72,537 thousand, respectively, representing contributions not yet paid for the reporting period. The amounts were paid subsequent to the end of the reporting period.

Defined Benefit Plans

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

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

	December 31	
	2018	2017
Present value of defined benefit obligation	$ (314,090)	$ (577,335)
Fair value of plan assets	584,448	597,146
Net defined benefit asset	$ 270,358	$ 19,811

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	$ (530,455)	$ 572,043	$ 41,588
Current service cost	(11,492)	-	(11,492)
Net interest (expense) income	(7,957)	8,742	785
Recognized in profit or loss	(19,449)	8,742	(10,707)
Remeasurement			
Return on plan assets	-	(3,104)	(3,104)
Actuarial loss - changes in demographic assumptions	(59,059)	-	(59,059)
Actuarial gain - experience adjustments	29,795	-	29,795
Recognized in other comprehensive income	(29,264)	(3,104)	(32,368)
Contributions from the employer	-	21,298	21,298
Benefits paid	1,833	(1,833)	-
Balance at December 31, 2017	(577,335)	597,146	19,811
Current service cost	(11,514)	-	(11,514)
Past service cost and gain on settlements	61,760	-	61,760
Net interest (expense) income	(8,660)	9,112	452
Recognized in profit or loss	41,586	9,112	50,698
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	194,244	-	194,244
Recognized in other comprehensive income	164,681	14,720	179,401
Contributions from the employer	-	20,448	20,448
Benefits paid	56,978	(56,978)	-
Balance at December 31, 2018	$ (314,090)	$ 584,448	$ 270,358

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 rate	1.375%	1.50%
Expected rate of salary increase	4.000%	4.00%

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

	December 31	
	2018	2017
Discount rate		
0.25% increase	$ 11,533	$ 20,673
0.25% decrease	$ (12,075)	$ (21,651)
Expected rate of salary increase		
0.25% increase	$ (11,601)	$ (20,833)
0.25% decrease	$ 11,148	$ 20,011

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	$ 13,450	$ 20,447
The average duration of the defined benefit obligation	15.45 years	15.00 years

23. EQUITY

Share Capital

a. Ordinary shares

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

For the year ended 2017, the Company retired 1,193 thousand restricted shares for employees amounting to NT$11,926 thousand. In October 2017, the employee share options have been exercised by issuing 10 thousand shares that amounted to NT$100 thousand. As a result, the Company'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, the Company 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, the Company'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 the Company's ordinary shares authorized were reserved for the issuance of employee share options.

b. Global depositary receipts

In November 2003, the Company issued 14,400 thousand ordinary shares corresponding to 3,600 thousand units of Global Depositary Receipts ("GDRs"). For this GDR issuance, the Company's shareholders, including Via Technologies, Inc., also issued 12,878.4 thousand ordinary shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Taking into account the effect of share dividends, the GDRs increased to 8,782.1 thousand units (36,060.5 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's ordinary shares. As of December 31, 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 the Company's issued and outstanding ordinary shares.

Capital Surplus

	December 31	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
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

(Continued)

(Concluded)

	December 31	
	2018	2017
May be used to offset a deficit only		
Changes in equity-method associates capital surplus	$ 60,873	$ -
May not be used for any purpose		
Arising from employee share options	247,944	572,369
Arising from employee restricted shares	23,426	110,219
	$ 15,576,268	$ 15,551,491

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 29.

Retained Earnings and Dividend Policy

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

a. To pay taxes.
b. To cover accumulated losses, if any.
c. To appropriate 10% legal reserve unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital.
d. To recognize or reverse special reserve return earnings.
e. The Board of Directors shall propose allocation ratios for any remainder profit after withholding the amounts under subparagraphs a. to d. above plus any unappropriated retained earnings of previous years based on the dividend policy set forth in the Article and propose such allocation ratio at the shareholders' meeting.

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

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

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

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

Other Equity

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 share plan for employees. See Note 29 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	(20,164)	99,815
Balance, end of the year	$ (7,077)	$ (49,590)

24. OPERATING REVENUES

	For the Year Ended December 31	
	2018	2017
Sale of goods	$ 21,494,954	$ 56,910,227
Other operating income	710,870	2,423,666
	$ 22,205,824	$ 59,333,893

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.

25. NET 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	$ 304,487	$ 76,579
Rental income	435,925	3,657
Others	186,180	297,057
	$ 926,592	$ 377,293

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 property, plant and equipment	162,272	-
Net gain on disposal of subsidiary	15,396	-
Net foreign exchange gain	239,354	1,081,637
Net gain (loss) arising from financial instruments classified as held for trading	1,255	(9,985)
Ineffective portion of cash flow hedge (Note 8)	-	3,538
Impairment loss (Notes 14, 16 and 18)	(2,252,899)	(203,927)
Other loss	(542,738)	(15,318)
	$28,908,025	$ 855,945

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.

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

c. Impairment 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)	-	5,569
	$ 82,964	$ (357,301)

d. Depreciation and amortization

	For the Year Ended December 31 2018	2017
Property, plant and equipment	$ 353,598	$ 716,572
Investment properties	91,215	-
Intangible assets	59,143	237,503
	$ 503,956	$ 954,075
An analysis of depreciation - by function		
Operating costs	$ 82,771	$ 279,356
Operating expenses	270,827	437,216
Other expenses	91,215	$ -
	$ 444,813	$ 716,572
Classification of amortization - by function		
Operating costs	$ -	$ -
Operating expenses	59,143	237,503
	$ 59,143	$ 237,503

e. Employee benefits expense

	For the Year Ended December 31 2018	2017
Short-term benefits	$ 5,228,132	$ 8,269,080
Post-employment benefits (Note 22)	$ 187,624	$ 293,585
Defined contribution plans	(50,698)	10,707
Defined benefit plans	136,926	304,292
Share-based payments (Note 29)		
Equity-settled share-based payments	(20,812)	129,647
Separation benefits	361,174	-
Total employee benefits expense	$ 5,705,420	$ 8,703,019
Classification - by function		
Operating costs	$ 1,418,134	$ 2,466,299
Operating expenses	3,926,112	6,236,720
Other expenses	361,174	-
	$ 5,705,420	$ 8,703,019

f. Employees' compensation

In compliance with the Company'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

	For the Year Ended December 31 2018	2017
Employees' compensation	4%	4%

Amount

	For the Year Ended December 31 2018	2017
Employees' compensation	$ 456,987	$ -

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

For 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

	For the Year Ended December 31 2018	2017
Inventories (included in operating costs)	$ 973,438	$ 5,558,923
Intangible assets (included in other gains and losses)	8,957	-
Prepayments (included in other gains and losses)	2,210,749	-
Property, plant and equipment (included in other gains and losses)	33,193	198,358
	$3,226,337	$ 5,757,281

h. Gain or loss on foreign currency exchange

	For the Year Ended December 31 2018	2017
Foreign exchange gains	$ 1,730,601	$ 5,095,483
Foreign exchange losses	(1,491,247)	(4,013,846)
Valuation gains (losses) arising from financial instruments classified as held for trading	1,255	(9,985)
Ineffective portion of cash flow hedges	-	3,538
	$ 240,609	$ 1,075,190

27. 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	$ 22,636	$ -
Adjustments for previous years	(108,780)	(147,538)
	(86,144)	(147,538)
Deferred tax		
In respect of the current year	5,017,363	(404,200)
Income tax expense (benefit) recognized in profit or loss	$ 4,931,219	$(551,738)

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	$ 16,999,421	$ (17,457,451)
Income tax expense (benefit) calculated at 20% and 17% in 2018 and 2017, respectively	3,399,884	(2,967,766)
Effect of expenses that were not deductible in determining taxable profit	71,830	44,316
Share of the profit or loss of subsidiaries, associates	62,214	521,494
Effect of temporary differences	1,506,071	161,611
Effect of loss carryforward	-	1,836,145
Adjustments for previous years' tax	(108,780)	(147,538)
Income tax expense (benefit) recognized in profit or loss	$ 4,931,219	$(551,738)

(Continued)

(Concluded)

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
Deferred tax		
Recognized in current year		
Income tax expense (benefit) of remeasurement on defined benefit plan	$ 21,529	$(3,885)

c. Current tax assets and liabilities

	December 31 2018	2017
Current tax assets		
Tax refund receivable	$ 33,312	$ 41,962
Current tax liabilities		
Income tax payable	$ 11,634	$ 11,306

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	Closing Balance
Deferred tax assets				
Temporary differences				
Allowance for loss on decline in value of inventory	$ 560,149	$(335,499)	$ -	$ 224,650
Unrealized profit	42,754	(21,294)	-	21,460
Unrealized royalties	404,858	43,000	-	447,858
Unrealized marketing expenses	424,733	(177,198)	-	247,535
Unrealized warranty expense	312,697	(96,115)	-	216,582
Unrealized contingent losses on purchase orders	69,754	(62,528)	-	7,226
Others	288,529	(103,765)	-	184,764

(Continued)

	2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Loss carryforward	6,763,951	(4,286,524)	-	2,477,427
	$ 8,867,425	$ 5,039,923	$ -	$ 3,827,502
Deferred tax liabilities				
Temporary differences				
Defined benefit plans	$ 2,377	$ 8,628	$ 21,529	$ 32,534
Financial instruments at FVTPL	-	151	-	151
Others	31,339	(31,339)	-	-
	$ 33,716	$(22,560)	$ 21,529	$ 32,685

	2017			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Allowance for loss on decline in value of inventory	$ 393,384	$ 166,765	$ -	$ 560,149
Unrealized profit	151,256	(108,502)	-	42,754
Unrealized royalties	370,916	33,942	-	404,858
Unrealized marketing expenses	683,977	(259,244)	-	424,733
Unrealized warranty expense	323,078	(10,381)	-	312,697
Unrealized contingent losses on purchase orders	44,802	24,952	-	69,754
Others	381,553	(93,024)	-	288,529
Loss carryforward	6,082,876	681,075	-	6,763,951
	$ 8,431,842	$ 435,583	$ -	$ 8,867,425
Deferred tax liabilities				
Temporary differences				
Defined benefit plans	$ 4,991	$ 1,271	$ (3,885)	$ 2,377
Financial instruments at FVTPL	1,227	(1,227)	-	-
Others	-	31,339	-	31,339
	$ 6,218	$ 31,383	$ (3,885)	$ 33,716

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	$ 53,109,541	$ 38,767,358
Deductible temporary differences	$ 8,625,704	$ 12,373,371

f. Information about unused loss carry-forward

Loss carryforwards as of December 31, 2018 comprised of:

Remaining Carrying	Expiry Year
$ 3,224,044	2024
22,459,646	2025
21,816,516	2026
17,996,470	2027
$ 65,496,676	

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

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

27. EARNINGS (LOSS) PER SHARE

Unit: NT$ Per Share

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

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
Net profit (loss) for the year	$ 12,068,202	$ (16,905,713)

Shares

Unit: In Thousands of Shares

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings (loss) per share	819,629	821,593
Effect of potentially dilutive ordinary shares:		
Employee share options	12,928	-
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	832,557	821,593

If the Company offered to settle the compensation or bonuses paid to employees in cash or shares, the Company expect that 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.

28. 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	$ 15,946	$ 42,106
Later than 1 year and not later than 5 years	54,483	111,850
Later than 5 years	-	-
	$ 70,429	$ 153,956

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	4,123,389	-
	$ 6,735,269	$ -

29. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

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

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

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

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

Information on employee share options was 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	(9,010)		(3,994)	
Balance at December 31	6,909	$ 138.19	16,068	137.45
Options exercisable, end of the year	6,889		15,792	

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 one 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, the Company'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 cash and dividends in share.
c. The employees holding these shares have no voting rights.

If an employee fails to meet the vesting conditions, the Company will recall or buy back and cancel the restricted shares. For the years ended December 31, 2017 and 2018, the Company 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 the Company'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$(20,812) thousand and NT$129,647 thousand for the years ended December 31, 2018 and 2017, respectively.

30. 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.

31. FINANCIAL INSTRUMENTS

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

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

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

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 FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market shares	$ 225	$ -	$ -	$ 225
Domestic unlisted shares	-	-	289,884	289,884
	$ 225	$ -	$ 289,884	$ 290,109
Financial liabilities at FVTPL				
Derivative financial instruments Foreign exchange contracts	$ -	$ 82,156	$ -	$ 82,156

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial instruments	$ -	$ 65,199	$ -	$ 65,199
Available-for-sale financial assets				
Domestic listed stocks - equity investments	$ 91	$ -	$ -	$ 91
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 75,184	$ -	$ 75,184

There were no transfers between Level 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 at FVTOCI Equity
Financial Assets	Instruments
Balance at January 1, 2018	$ 475,258
Recognized in other comprehensive income	(185,374)
Balance at December 31, 2018	$ 289,884

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

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

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

	For the Year Ended December 31	
	2018	2017
Financial assets		
Financial assets at FVTPL		
Held for trading (Note 1)	$ 83,411	$ 65,199
Loans and receivables (Note 2)	-	7,933,935
Available-for-sale financial assets (Note 3)	-	510,383
Amortized cost (Note 4)	24,871,837	-
Financial assets at FVTOCI		
Equity instruments	290,109	-
Financial liabilities		
Financial liabilities at FVTPL		
Held for trading	82,156	75,184
Amortized cost (Note 5)	21,808,187	27,306,425

Note 1: The balances included financial assets 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's financial instruments mainly include equity and debt investments, trade receivables, other receivables, trade payables and other payables. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze the exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The Company sought to minimize the effects of these risks by using derivative financial instruments and non-derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company's policies 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 35.

Sensitivity analysis

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

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis 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
For the year ended December 31, 2018		
USD	$ 7,963	$(131,112)
EUR	2,527	(3,641)
RMB	(20,430)	(105,301)
JPY	426	(1,504)
For the year ended December 31, 2017		
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 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 4,023,438	$ 8,098,453	$ -
Other payables	5,213,566	4,293,148	-
Other current liabilities	56,529	-	-
Guarantee deposits received	-	-	123,053
	$ 9,293,533	$ 12,391,601	$ 123,053

December 31, 2017

	Less Than 3 Months	3 to 12 Months	Over 1 Year
Non-derivative financial liabilities			
Note and trade payables	$ 7,855,138	$ 7,441,270	$ -
Other payables	7,111,736	4,796,378	-
Other current liabilities	100,638	-	-
Guarantee deposits received	-	-	1,265
	$ 15,067,512	$ 12,237,648	$ 1,265

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
Net settled			
Foreign exchange contracts	$ 20,968	$ -	$ -
Gross settled			
Foreign exchange contracts			
Inflows	$ 25,899,104	$ -	$ -
Outflows	(25,861,350)	-	-
	$ 37,754	$ -	$ -

December 31, 2017

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

3) Bank credit limit

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

Amount used includes guarantee for customs duties and for patent litigation.

32. RELATED-PARTY TRANSACTIONS

The Names and Relationships of Related-parties

Related-party	Relationship with the Company
Communication Global Certification Inc.	Subsidiary (Disposed on January 2018)
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
PT. High Tech Computer Indonesia	Subsidiary
HTC (Australia and New Zealand) PTY LTD.	Subsidiary
HTC (Thailand) Limited	Subsidiary
HTC India Private Limited	Subsidiary
HTC Malaysia Sdn. Bhd.	Subsidiary
HTC Communication Co., Ltd.	Subsidiary
HTC HK, Limited	Subsidiary
HTC Communication Technologies (SH)	Subsidiary
HTC Vietnam Services One Member Limited Liability Company	Subsidiary
Yoda Co., Ltd.	Subsidiary
HTC Communication (BJ) Tech Co.	Subsidiary
HTC Corporation (Shanghai WGQ)	Subsidiary
HTC Electronics (Shanghai) Co., Ltd.	Subsidiary
HTC Netherlands B.V.	Subsidiary
HTC EUROPE CO., LTD.	Subsidiary
HTC BRASIL	Subsidiary
HTC Belgium BVBA/SPRL	Subsidiary
HTC NIPPON Corporation	Subsidiary
HTC FRANCE CORPORATION	Subsidiary
HTC Germany GmbH.	Subsidiary
HTC Iberia S.L.	Subsidiary
HTC Poland sp. z o.o.	Subsidiary
HTC Communication Canada, Ltd.	Subsidiary
HTC Communication Sweden AB	Subsidiary
HTC Middle East FZ-LLC	Subsidiary
HTC Communication Solutions Mexico, S.A DE C.V.	Subsidiary

(Continued)

(Concluded)

Related-party	Relationship with the Company
HTC America Inc.	Subsidiary
HTC America Innovation Inc.	Subsidiary
Dashwire, Inc.	Subsidiary
HTC Czech RC s.r.o.	Subsidiary
Uomo vitruviano Corp.	Subsidiary
VIA Technologies Inc.	Its chairman in substance is the Company's director
Xander International Corp.	Its chairman in substance is the Company's director
VIA Labs, Inc.	Its chairman in substance is the Company's director
Chander Electronics Corp.	Its chairman in substance is the Company's director
Way Chih Investment Co., Ltd.	The Company's supervisor
HTC Education Foundation	Its chairman in substance is the Company's director
TVBS Media Inc.	Same director as the Company's
Hung-Mao Investment Co., Ltd.	Its significant shareholder in substance is the Company's chairwoman
Nan Ya Plastics Corporation	Its director in substance and the Company's chairwoman are relatives and other relatives
Atrust Computer Corporation	Its general manager in substance is the Company's director
Employees' Welfare Committee	Employees' Welfare Committee of the Company
Premier Development & Investment	Its chairman in substance is the Company's chairman

Operating Sales

	For the Year Ended December 31	
	2018	2017
Subsidiaries		
HTC America Inc.	$ 6,552,481	$22,910,624
Others	2,131,044	3,062,795
Other related parties	33,908	83,165
	$ 8,717,433	$26,056,584

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

	December 31	
	2018	2017
Subsidiaries		
HTC NIPPON Corporation	$ 293,982	$ 472,572
HTC Communication Inc.	80,479	193,967
HTC America Inc.	-	232,722
Others	2,759	24,437
Other related parties	516	22,400
	$ 377,736	$ 946,098

Products sold to all related parties will be lower than those sold to outsiders, except for some related parties who have no comparison with those sold to third parties. There will be no guarantee required for trade receivables from related parties. Furthermore, because trade receivables from related parties are assessed without bad debt risk, no bad debt expense had been recognized for the years ended December 31, 2018 and 2017.

Purchase and Outsourcing Expense

	For the Year Ended December 31	
	2018	2017
Purchase		
Subsidiaries	$ 1,393	$ 117,503
Other related parties	11,725	3,360
	$ 13,118	$ 120,863
Outsourcing expense		
Subsidiaries	$ -	$ 1,131

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

	December 31	
	2018	2017
Subsidiaries	$ 1,411	$ 244,967
Other related parties	4,159	960
	$ 5,570	$ 245,927

Purchase prices for related parties and third parties were similar. Outsourcing expenses were calculated based on contracted processing rate. The outstanding balances of trade payables to related parties are unsecured and will be settled in cash.

Compensation of Key Management Personnel

	For the Year Ended December 31	
	2018	2017
Short-term benefits	$ 160,456	$ 193,486
Post-employment benefits	612	2,279
Share-based payments	(1,791)	17,404
	$ 159,277	$ 213,169

The remuneration of all related board of directors and key executives will be determined on the basis of each individual's performance.

Rental Expenses

	For the Year Ended December 31	
	2018	2017
Other related parties	$ 4,653	$ 4,708

The Company leased meeting room from a related party under an operating lease agreement The rental payment is determined at the prevailing rates in the surrounding area.

Property, Plant and Equipment Acquired

	Price	
	For the Year Ended December 31	
	2018	2017
Other related parties	$ 675	$ -

Services, Marketing and Commission Expenses

	For the Year Ended December 31	
	2018	2017
Subsidiaries		
HTC EUROPE CO., LTD.	$ 619,631	$ 964,214
HTC Communication Technologies (SH)	537,092	643,789
Others	1,428,414	2,290,573
Other related parties	-	6,000
	$ 2,585,137	$ 3,904,576

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

	December 31	
	2018	2017
Subsidiaries	$ 1,235,987	$ 1,397,471
Other related parties	2,715	7,162
	$ 1,238,702	$ 1,404,633

The subsidiary provided services such as overseas business activities, research and development, technical support, business consulting and after-sales maintenance for the Company, and all service fees, advertising fees and commission fees are taken into account.

Other Related-party Transactions

To enhance products diversity, the Company has entered into technology license agreement with subsidiaries. As of December 31, 2018 and 2017 the amounts of prepaid royalty were NT$56,470 thousand and NT$54,737 thousand, respectively.

33. PLEDGED ASSETS

As of December 31, 2018 and 2017, the time deposits amounting to NT$476,276 thousand and NT$149,195 thousand and were classified as other financial assets and were provided respectively as collateral for rental deposits, litigation and cooperative vendors.

34. COMMITMENTS, CONTINGENCIES AND SIGNIFICANT CONTRACTS

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

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

In June 2011, IPCom filed a new complaint against the Company and claimed the Company's infringement of a patent owned by IPCom 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 the parent company only 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 the parent company only 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.

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31			
	2018		2017	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
Financial assets				
Monetary items				
USD	$ 806,999	30.73	$ 687,307	29.84
EUR	45,717	35.16	63,842	35.66
JPY	3,388,315	0.2787	4,931,169	0.2649
RMB	523,555	4.47	271,120	4.58
Investments accounted for by the equity method				
USD	183,171	30.73	215,505	29.84
SGD	967,256	22.55	919,140	22.32
Financial liabilities				
Monetary items				
USD	$ 842,297	30.73	$ 797,006	29.84
EUR	55,851	35.16	69,566	35.66
JPY	3,563,810	0.2787	4,308,994	0.2649
RMB	21,580	4.47	49,409	4.58

For the years ended December 31, 2018 and 2017, realized and unrealized net foreign exchange gain were NT$240,609 thousand and NT$1,075,190 thousand, respectively. It is impractical to disclose net foreign exchange gains or losses by each significant currency due to the variety of the foreign currency transactions.

36. 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.	Authorization to use CDMA technology to manufacture and sell units, royalty payment based on agreement.
Qualcomm Incorporated.	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.	

(Continued)

(Concluded)

Contractor	Term	Description
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.

6. INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
HTC Corporation

Opinion

We have audited the accompanying consolidated financial statements of HTC Corporation and its subsidiaries, 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)

	2018		2017	
ASSETS	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	48,460,206	72	38,489,385	58
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	19,250,613	28	28,096,021	42
TOTAL	$ 67,710,819	100	$ 66,585,406	100

(Continued)

	2018		2017	
LIABILITIES AND EQUITY	Amount	%	Amount	%
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	22,317,100	33	32,807,450	49
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	173,851	-	52,828	-
Total liabilities	22,490,951	33	32,860,278	49
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	51,030	-	29,552	-
Total equity	45,219,868	67	33,725,128	51
TOTAL	$ 67,710,819	100	$ 66,585,406	100

(Concluded)

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)	23,225,592	98	60,780,122	98
GROSS PROFIT	515,018	2	1,339,692	2
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	7,069,819	30	10,420,777	17
Total operating expenses	14,478,631	61	18,765,209	30
OPERATING LOSS	(13,963,613)	(59)	(17,425,517)	(28)
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)	(36,087)	-	(87,255)	-
Total non-operating income and expenses	31,192,095	132	466,682	1
PROFIT (LOSS) BEFORE INCOME TAX	17,228,482	73	(16,958,835)	(27)
INCOME TAX (EXPENSE) BENEFIT (Note 28)	(5,203,581)	(22)	38,476	-
PROFIT (LOSS) FOR THE YEAR	12,024,901	51	(16,920,359)	(27)
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)	(21,529)	-	4,014	-
	(699,235)	(3)	(29,115)	-

(Continued)

	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	-	-	131,392	-
	133,388	-	(1,269,936)	(2)
Other comprehensive income and loss for the year, net of income tax	(565,847)	(3)	(1,299,051)	(2)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ 11,459,054	48	$(18,219,410)	(29)
NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$ 12,068,202	51	$(16,905,713)	(27)
Non-controlling interests	(43,301)	-	(14,646)	-
	$ 12,024,901	51	$(16,920,359)	(27)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ATTRIBUTABLE TO				
Owners of the parent	$ 11,500,096	48	$(18,205,286)	(29)
Non-controlling interests	(41,042)	-	(14,124)	-
	$ 11,459,054	48	$(18,219,410)	(29)
EARNINGS (LOSS) PER SHARE (Note 29)				
Basic	$ 14.72		$(20.58)	
Diluted	$ 14.50		$(20.58)	

(Concluded)

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 CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Equity Attributable to Owners of the Parent				Equity Attributable to Owners of the Parent						
	Share Capital		Retained Earnings		Other Equity						
	Ordinary Shares	Capital Surplus	Legal Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Losses on 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	$ 8,188,135	$ 15,576,268	$ 18,297,655	$ 6,194,337	$ (2,052,019)	$ (1,028,461)	$ -	$ (7,077)	$ 45,168,838	$ 51,030	$ 45,219,868

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	(9,495,824)	(19,009,447)

(Continued)

	2018	2017
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
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)	31,285,385	-
Net cash generated from investing activities	23,187,646	183,401
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	19,454	-
Net cash generated from (used in) financing activities	152,294	(15,880)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	162,205	(795,064)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,006,321	(19,636,990)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	10,443,227	30,080,217
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 24,449,548	$ 10,443,227

(Concluded)

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche review audit dated March 1, 2019)

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 depositary receipts.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by HTC's Board of Directors and authorized for issue on March 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.

	Measurement Category		Carrying Amount		
Financial Assets	IAS 39	IFRS 9	IAS 39	IFRS 9	Remark
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	Remeasure-ments	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	$ -	$ 196,941	$ -	$ 196,941	$ -	$ -	b)
Add: From available for sale (IAS 39) - mandatory reclassification	196,941	(196,941)	-	-	-	-	b)
FVTOCI	-	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)
Amortized cost	-	27,211,199	-	27,211,199	-	-	a)
Add: Reclassification from loans and receivables (IAS 39)	27,211,199	(27,211,199)	-	-	-	-	a)

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.

b) Derivatives that previously classified as held-for-trading under IAS 39 were mandatorily classified as measured at FVTPL under IFRS 9.

c) 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	$ -	$ 429,183	$ 429,183
Lease liabilities - current	$ -	$ 157,434	$ 157,434
Lease liabilities - non-current	-	271,749	271,749
Total effect on liabilities	$ -	$ 429,183	$ 429,183

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' 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 fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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

	December 31	
	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)	13,890,454	1,938,458
	$24,449,548	$10,443,227

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

	December 31	
	2018	2017
Bank balance	0.01%-0.62%	0.01%-0.59%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
Financial assets		
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	22,124	-
	$ 319,875	$ 65,199
Current	$ 83,411	$ 65,199
Non-current	236,464	-
	$ 319,875	$ 65,199
Financial liabilities - current		
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange contracts	$ 82,156	$ 75,184

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

Forward Exchange Contracts

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
December 31, 2018					
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

(Continued)

	Buy/Sell	Currency	Maturity Date	Notional Amount (In Thousands)	
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
December 31, 2017					
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	10,00

(Concluded)

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	3,538
	$ (851)

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	388,700
	472,083
Foreign investments	
Listed shares	409,412
Unlisted shares	1,103,891
Unlisted beneficiary certificate	749,046
	2,262,349
	$ 2,734,432
Current	$ 409,412
Non-current	2,325,020
	$ 2,734,432

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	15,516
	$ 3,187,240
Classified according to financial asset measurement categories	
Financial assets at fair value through profit or loss	$ 131,742
Available-for-sale financial assets	3,055,498
	$ 3,187,240

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	$17,069,473	$ 7,988,363
Current	$16,915,835	$ 7,988,363
Non-current	153,638	-
	$17,069,473	$ 7,988,363

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

12. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2018	2017
Trade and overdue receivables		
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	$ (1,840,947)	$ (1,840,947)
	$ 1,683,150	$ 8,537,096
Current	$ 1,683,150	$ 8,537,096
Non-current	-	-
	1,683,150	$ 8,537,096
Other receivables		
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	(1,529,699)	(1,551,542)
	$ 221,707	$ 103,497
Current - other receivables	$ 221,707	$ 103,497
Non-current - other receivables	-	-
	$ 221,707	$ 103,497

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)	(41,858)	(3,697)	(20,246)	(306,821)	(372,622)
Amortized cost	$ 1,491,479	$ 75,550	$ 116,121	$ -	$ 1,683,150

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	-
Balance at January 1, 2018 (per IFRS 9)	2,349,999
Add: Net remeasurement of loss allowance	82,964
Less: Amounts written off	(219,394)
Balance at December 31, 2018	$ 2,213,569

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	340,280
	$ 648,336

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	-
	$ 139,284

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	(362,870)
Balance, end of the year	$ 2,349,999

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	-
Balance at January 1, 2018 (per IFRS 9)	1,551,542
Foreign exchange gains and losses	(21,843)
Balance at December 31, 2018	$ 1,529,699

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	76,412
Balance at December 31, 2017	$ 1,551,542

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	33,623	156,953
	$ 3,301,645	$ 7,381,426

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

	December 31	
	2018	2017
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	464,676	800,287
	$ 1,199,909	$ 3,976,719
Current	$ 1,160,299	$ 1,742,986
Non-current	39,610	2,233,733
	$ 1,199,909	$ 3,976,719

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

	December 31	
	2018	2017
Land and buildings held for sale	$ -	$ 1,647,763

On March 15, 2017, the HTCs' 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:

			% of Ownership		
			December 31		
Investor	Investee	Main Businesses	2018	2017	Remark
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	-
	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	-

(Continued)

			% of Ownership		
			December 31		
Investor	Investee	Main Businesses	2018	2017	Remark
	HTC India Private Ltd.	〃	99.00	99.00	-
	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	99.93	99.33	-
	HTC Nordic ApS.	〃	100.00	100.00	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership December 31 2018	2017	Remark
	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	-
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, Inc.	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	-

(Continued)

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	$ 446,133	$ 413,120

Investments in Associates - Associates That Are Not Individually Material

	December 31 2018	2017
Unlisted equity investments		
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.	65,168	11,501
	$ 446,133	$ 413,120

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

Name of Associates	December 31 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:

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

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

	December 31 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	310,361	443,781
	$ 8,425,886	$10,798,613

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
Cost					
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	4,673,376	4,529,692	5,401,732	1,802,278	16,407,078
Accumulated depreciation					
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	-	1,579,782	4,659,017	1,481,157	7,719,956
Accumulated impairment					
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	-	-	250,476	10,760	261,236
Net book value, end of the year	$ 4,673,376	$ 2,949,910	$ 492,239	$ 310,361	$ 8,425,886

	2017				
	Land	Buildings	Machinery and Equipment	Other Equipment	Total
Cost					
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	4,676,726	7,383,032	12,901,808	2,219,343	27,180,909
Accumulated depreciation					
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	-	2,122,305	11,640,682	1,757,876	15,520,863
Accumulated impairment					
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	-	-	843,747	17,686	861,433
Net book value, end of the year	$ 4,676,726	$ 5,260,727	$ 417,379	$ 443,781	$ 10,798,613

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
Cost		
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	2,872,143	-

(Continued)

	2018	2017
Accumulated depreciation		
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	781,917	-
Net book value, end of the year	$ 2,090,226	$ -

(Concluded)

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	$ 2,743,226

20. INTANGIBLE ASSETS

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

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

2018	Patents	Goodwill	Other Intangible Assets	Total
Cost				
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	266,550	16,049	12,468	295,067
Balance, end of the year	11,734,540	729,299	1,819,813	14,283,652
Accumulated amortization				
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	224,194	-	8,257	232,451
Balance, end of the year	10,563,272	-	1,567,249	12,130,521
Accumulated impairment				
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	-	14,053	4,812	18,865
Balance, end of the year	111,085	660,278	200,512	971,875
Net book value, end of the year	$ 1,060,183	$ 69,021	$ 52,052	$ 1,181,256

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

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

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

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

Accrued Expenses

	December 31 2018	December 31 2017
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	605,934	723,274
	$ 9,189,958	$ 11,624,987

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

23. PROVISIONS

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

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	(610)	-	(610)
Balance, end of the year	$ 1,943,976	$ 60,214	$ 2,004,190

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	(12,461)	-	(12,461)
Balance, end of the year	$ 2,795,933	$ 581,268	$ 3,377,201

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:

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

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	$ (533,819)	$ 574,258	$ 40,439
Current service cost	(11,492)	-	(11,492)
Net interest (expense) income	(7,990)	8,765	775
Recognized in profit or loss	(19,482)	8,765	(10,717)
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	29,499	-	29,499
Recognized in other comprehensive income	(30,024)	(3,105)	(33,129)
Contributions from the employer	-	21,526	21,526

(Continued)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Asset
Benefits paid	1,833	(1,833)	-
Balance at December 31, 2017	(581,492)	599,611	18,119
Current service cost	(11,514)	-	(11,514)
Past service cost and gain on settlements	61,760	-	61,760
Net interest (expense) income	(8,660)	9,111	451
Recognized in profit or loss	41,586	9,111	50,697
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	194,244	-	194,244
Recognized in other comprehensive income	164,681	14,720	179,401
Contributions from the employer	-	20,448	20,448
Benefits paid	56,978	(56,978)	-
Adjustment on disposal of subsidiary	4,157	(2,464)	1,693
Balance at December 31, 2018	$ (314,090)	$ 584,448	$ 270,358

(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	$ 11,533	$ 20,801
0.25% decrease	$ (12,075)	$ (21,787)
Expected rates of salary increase		
0.25% increase	$ (11,601)	$ (20,965)
0.25% decrease	$ 11,148	$ 20,137

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	$ 13,450	$ 20,675
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)	1,000,000	1,000,000
Shares authorized	$ 10,000,000	$ 10,000,000
Number of shares issued and fully paid (in thousands of shares)	818,814	820,826
Shares issued	$ 8,188,135	$ 8,208,261

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

	December 31	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
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
May be used to offset a deficit only		
Changes in equity-method associates capital surplus	60,873	-
May not be used for any purpose		
Arising from employee share options	247,944	572,369
Arising from employee restricted shares	23,426	110,219
	$ 15,576,268	$ 15,551,491

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	(20,164)	99,815
Balance, end of the year	$(7,077)	$(49,590)

26. OPERATING REVENUE

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

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	348	27,510
	546,772	283,574
Rental income	459,070	-
Dividends	-	47,284
Others	230,037	342,245
	$1,235,879	$ 673,103

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	(802,760)	(27,317)
	$ 29,994,218	$ (85,851)

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)	-	109,779
	$ 82,964	$ (253,091)

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	1,198,288	1,386,637
	$ 1,773,861	$ 2,393,118

(Continued)

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

(Concluded)

e. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Short-term benefits	$ 7,974,171	$ 11,264,101
Post-employment benefits (Note 24)		
Defined contribution plans	290,437	420,872
Defined benefit plans	(50,697)	10,717
	239,740	431,589
Share-based payments (Note 33)		
Equity-settled share-based payments	(21,830)	128,811
Separation benefits	537,608	-
Total employee benefits expense	$ 8,729,689	$ 11,824,501
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	537,608	-
	$ 8,729,689	$ 11,824,501

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

	For the Year Ended December 31	
	2018	2017
Employees' compensation	4%	4%

Amount

	For the Year Ended December 31	
	2018	2017
Employees' compensation	$ 456,987	$ -

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

	For the Year Ended December 31	
	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)	36,144	335,193
	$ 3,374,551	$ 6,048,636

h. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	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	-	3,538
	$ 491,052	$ 442,530

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	(167,294)	(115,345)
	194,653	41,087

(Continued)

	For the Year Ended December 31	
	2018	2017
Deferred tax		
In respect of the current year	5,008,928	(79,563)
Income tax expense (benefit) recognized in profit or loss	$ 5,203,581	$ (38,476)

(Concluded)

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	$ 17,228,482	$ (16,958,835)
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	(167,294)	(115,345)
Income tax expense (benefit) recognized in profit or loss	$ 5,203,581	$ (38,476)

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
Deferred tax		
Recognized in current year		
Income tax expense (benefit) of remeasurement on defined benefit plan	$ 21,529	$ (4,014)

c. Current tax assets and liabilities

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

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
Deferred tax assets						
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	6,773,881	(4,293,446)	-	-	377	2,480,812
	$ 8,990,648	$ (5,033,634)	$ -	$ -	$ 46	$ 3,957,060
Deferred tax liabilities						
Temporary differences						
Financial instruments at FVTPL	$ -	$ 151	$ -	$ -	$ -	$ 151
Defined benefit plans	1,936	8,762	21,529	308	-	32,535
Others	45,211	(33,619)	-	-	(827)	10,765
	$ 47,147	$ (24,706)	$ 21,529	$ 308	$ (827)	$ 43,451

	2017					
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Disposal of Subsidiary	Translation Adjustment	Closing Balance
Deferred tax assets						
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	6,223,258	554,274	-	-	(3,651)	6,773,881
	$ 8,957,876	$ 48,598	$ -	$ -	$ (15,826)	$ 8,990,648
Deferred tax liabilities						
Temporary differences						
Financial instruments at FVTPL	$ 1,227	$ (1,227)	$ -	$ -	$ -	$ -
Defined benefit plans	4,678	1,272	(4,014)	-	-	1,936
Others	75,389	(31,010)	-	-	832	45,211
	$ 81,294	$ (30,965)	$ (4,014)	$ -	$ 832	$ 47,147

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	$ 56,988,154	$ 49,484,247
Deductible temporary differences	$ 9,058,035	$ 21,422,629

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
275,494	2028-2032
$ 69,712,095	

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	$ 14.72	$ (20.58)
Diluted earnings (loss) per share	$ 14.50	$ (20.58)

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	$ 12,068,202	$ (16,905,713)

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	12,928	-
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	832,557	821,593

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	$ 118,756

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	110,434
	$ 118,756

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	(32,619)
	$ 93,246

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	(93,246)
Goodwill recognized on acquisition	$ 69,186

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	116,408
	$ 5,974

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	$ 410,857

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	(1,693)
Net assets disposed of	$ 395,461

c. Gain on disposal of subsidiary

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

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	(303,939)
	$ 106,918

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	28,949	59,321
	$ 396,862	$ 508,331

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	4,123,389	-
	$ 6,735,269	$ -

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	(9,010)		(3,994)	
Balance at December 31	6,909	$ 138.19	16,068	$ 137.45
Options exercisable, end of the year	6,889		15,792	

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
	$ -	$ 83,411	$ 236,464	$ 319,875
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
	$ 492,795	$ -	$ 2,241,637	$ 2,734,432
Financial liabilities at FVTPL				
Derivative financial instruments				
Foreign exchange contracts	$ -	$ 82,156	$ -	$ 82,156

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
	$ 312,197	$ -	$ -	$ 312,197

(Continued)

	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Derivative financial instruments	$ -	$ 75,184	$ -	$ 75,184

(Concluded)

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	5,033	77,008	82,041
Balance at December 31, 2018	$ 236,464	$ 2,241,637	$ 2,478,101

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

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

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
Financial assets		
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	-
Financial liabilities		
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 Stated dollars (USD), currency Euro (EUR), currency Renminbi (RMB) and currency Japanese yen (JPY).

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollars ("NTD", the functional currency) against the relevant foreign currencies. The sensitivity analysis 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
For the year ended December 31, 2018		
USD	$ 7,963	$ (131,112)
EUR	2,527	(3,641)
RMB	(20,430)	(105,301)
JPY	426	(1,504)
For the year ended December 31, 2017		
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
Non-derivative financial liabilities			
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	-	-	130,400
	$ 8,011,506	$ 11,127,348	$ 130,400

December 31, 2017

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

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 to 12 Months	Over 1 Year
Net settled			
Foreign exchange contracts	$ 20,968	$ -	$ -
Gross settled			
Foreign exchange contracts			
Inflows	$ 25,899,104	$ -	$ -
Outflows	(25,861,350)	-	-
	$ 37,754	$ -	$ -

(Continued)

December 31, 2017

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

(Concluded)

3) Bank credit limit

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

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

Related-party	Relationship with the Company
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

	For the Year Ended December 31	
	2018	2017
Other related parties	$ 33,908	$ 83,165

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

	December 31	
	2018	2017
Other related parties	$ 516	$ 22,400

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

	For the Year Ended December 31	
	2018	2017
Other related parties	$ 11,725	$ 3,360

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	$ 4,159	$ 960

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	(1,791)	13,952
	$ 178,037	$ 227,101

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	9,074	4,708
	$ 37,335	$ 37,397

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	$ 675	$ -

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

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

   In June 2011, IPCom filed a new complaint against the Company and claimed the Company's infringement of a patent owned by IPCom 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
Financial assets				
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
Financial liabilities				
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:

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

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:

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

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:

	For the Year Ended December 31	
	2018	2017
Customer A	$ 6,271,576	$ 28,107,186

HTC Code of Conduct

HTC's Code of Conduct is a guideline to provide high ethical standards for all employees in conducting HTC business activities. All employees of HTC Corp., including branches and subsidiary companies, must follow these ethical standards regardless of the employees' position, grade level, and location.

This Code includes three major sections: the General Moral Imperative, Vendors/Suppliers and Customers Relationship, and Conflict of Interests.

The General Moral Imperative section requires that HTC commits to providing a safe and healthy work environment and equal opportunities, and that it establishes a behavioral code for the treatment of knowledge about the company's assets/properties/information.

The Vendors/Suppliers and Customer Relationship section requires that HTC commits to maintaining a fair, legal, and longterm relationship with its vendors/suppliers and customers to the benefit of all parties.

The Conflict of Interest section describes the behavioral rules for employees in situations of divided interest.

This Code is superior to any other local regulations except certain mandatory laws/acts issued by the local government. In such cases, the Talent Management Division should submit the specific local laws/acts to Corporate Talent Management Division in order to waive this specific regulation of the Code in that location. Otherwise, any violation of HTC Code of Conduct and applicable policies may cause disciplinary action up to and including the termination of employment. The employees are responsible for understanding and complying with the HTC Code of Conduct, as well as other applicable HTC policies/rules.

Mandatory Contents

1.0 General Moral Imperatives

While maintaining a work culture that ensures the company's success, HTC strives to treat each employee fairly and with dignity. HTC is also committed to complying with the labor laws of each country it operates in. As well, each employee is responsible for complying with all applicable external and internal laws, and follow up any new revision of company policies.

1.1 Work Environments:

HTC is committed to comply with local laws and regulations to establish a safe and healthy workplace, free from recognized hazards. Furthermore, HTC is thoroughly dedicated to providing employees with a workplace that is free of harassment (including sexual harassment) and discrimination. Any language or behavior of intention to cause hostilities or violations of this policy is strictly prohibited and shall be reported to a responsible authority immediately.

1.2 Corporate Confidentiality:

During the term of employment with HTC and thereafter, each employee must hold in strict confidence and not disclose, directly or indirectly, any "Confidential Information" (as defined below) gained from HTC or its customers or venders/ suppliers to any third party without the prior written consent of HTC. "Confidential Information" must be used only for the purpose of executing work for HTC. "Confidential Information" shall mean all business, technical, operational or other information that is not generally known to the public and that an employee develops, has access to, and becomes acquainted with during the term of employment, whether or not such information (A) is owned by HTC, HTC's customers, venders/suppliers, or any third party with which HTC desires to establish a business relationship with; (B) is in oral, written, drawn or electronic media form; (C) is subject matter for the application of patents, trademarks, copyrights, or other intellectual property rights; or (D) is labeled with "Confidential" or an equivalent word. Confidential information may include, but is not limited to the following:

1. Business plans, manufacturing and marketing plans, procurement plans, product roadmaps, product design records, product test plans and reports, product software and source codes, product pricing, product appearance, product specifications, tooling specifications, personnel information, financial information, customer lists, venders/supplier lists, distributor lists, raw materials and product inventory information, all quality records, trade secrets, and other information related to the Company's business activities;

2. Documents, databases, or other related materials to any computer programs or any development stages thereof;

3. Discoveries, concepts, ideas, designs, sketches, engineering drawings, specifications, circuit layouts, circuit diagrams, mechanical drawings, flow charts, production processes, procedures, models, molds, samples, components,trouble shooting guides, chips and other know-how; and

4. Proprietary information of any third party (such as customers or venders/ suppliers) that the Company has a duty of confidentiality pursuant to contracts or required by any applicable laws.

1.3 Protection of Property, HTC's Assets, and Personal Information:

Copyrights, patents, trade marks/secrets, the terms of license agreements and any kind of intellectual property are under protection by related laws or regulations; violations are strictly prohibited. The Company's assets are not limited to physical equipment and facilities only, but also include technologies, trademarks, and other invisible concepts & confidential information. The utilization of company assets is for business matters and should be maintained, updated, and recorded properly and regularly. This is also applicable to the use of employee personal data. Those who are dealing with employee data shall consider the business matters and employees' privacy as well. The only exception that permits the revelation of employees' personal data is where such disclosure is required by government laws.

1.4 Equal Opportunity:

HTC's Employment Policy is to comply with all applicable laws. Hiring decisions are based on HTC's business needs and the qualifications of applicants, and HTC strives to provide equal employment opportunities for all applicants and employees without regard to non-job-related factors, such as race, color, social class, language, religion, political affiliation, national origin, gender, sexual orientation, marital status, appearance, disability, previous union membership etc. Everyone must be treated with dignity and respect. This principle applies to all areas of employment, including, but not limited to, recruitment, hiring, training, promotion, compensation, benefits, transfer, and social and recreational programs. All employees should be responsible for the data accuracy and quality in any type of report in all aspects of their daily work. Any intention of misleading or incorrect data is not acceptable and may cause disciplinary action.

1.5 Political Activities:

The Company encourages employees to participate in public activities as responsible citizens. However, HTC employees are prohibited from engaging in political activities on behalf of HTC. The Company is not allowed to donate or engage the political activities in most global operations. Therefore, employees must be aware of that their involvements are on an individual basis, and no contribution or donation to political candidates or parties can be made under the company name. Furthermore, employees must not organize or hold any speeches or activities connected to political activities on Company premises.

2.0 Venders/Suppliers and Customers Relationship

It is a basic principle in Company business operations to maintain a good relationship with our venders/suppliers and customers.

2.1 Firm and Rational Attitude:

In securing and negotiating business, all employees should attempt to establish long-term relationships with our customers and venders/suppliers by providing essential and accurate information about our products and services. Employees shall demonstrate their professionalism with a sincere, firm, and rational attitude while dealing with customers or venders/suppliers. Conflicts caused by emotional languages or behaviors are strictly prohibited.

2.2 Product Quality and Safety:

The Company is committed to pursue excellence and maintain quality at all times. The Company strives to continuously improve the quality of products and service in compliance with the related safety regulations/laws in order to benefit our customers and venders/suppliers and achieve world-class competitiveness. To maintain HTC's valuable reputation and the benefits to our customers and venders/suppliers, all employees must comply with our quality processes and safety requirements.

2.3 Performance of Contracts:

Company contracts must be executed not only in accordance with the requirements of each contract, but also in compliance with all the laws and regulations applicable to our business. Any unfair or unreasonable regulation or condition should be avoided. Purchasing decisions must be made in the best interests of HTC by considering the venders'/suppliers' suitability, quality, price, and delivery of products or services; any personal preferences are not allowed for special offers. Purchasing agreements/sales contracts and related evaluation information should be documented clearly and confidentially. The contract information of customers and venders/suppliers, including but not limited to their names, price, delivery condition, payment terms, are as confidential as Company documents. Every employee must protect this confidential information from misuse and disclosure.

2.4 Business Travel:

All employees are responsible for ensuring that their business travels are intended to further Company business interests, and the business travel and entertainment expenditures shall be reasonable, prudent, and in accordance with applicable Company policies. On behalf of the Company, employees should be aware that certain venues, whose entertainment nature or atmosphere may impact negatively on the Company's reputation, such as a sexually-oriented site or similar environment, are not appropriate for business-related meetings or activities. These venues are not acceptable even if the expenses incurred are not paid by the Company. If the common local custom is to engage in recreational activities (e.g. golf tournaments) for business purposes, then these activities should be minimized when possible in case of the expenses are not paid in personal.

2.5 Gifts, Entertainment and Business Courtesies:

All employees or their family (means employee's spouse, parents, the parents of the spouse, children, siblings, grandparents, grandchildren, and other close relatives and friends) are not allowed to request, accept, or offer bribes or illegal profits (including but not limited to kickbacks, commissions, cash, securities, costly gifts and undue entertainment, or any direct or indirect improper gifts inconsistent with the normal trading course or insider trading) from/to customers, suppliers/vendors, or anyone in a business relationship in any kind of situation, nor to conduct any behavior that violates his/her duties and cause damage to HTC and directly or indirectly favor himself/herself, employees of HTC's vendor/supplier/business partner, or related parties .

Employees may provide or accept meals or entertainment if these activities are legitimate, consistent with accepted business practices and demonstrably help to build a business relationship. However, regardless of the amount, employees are not allowed to accept or give kickbacks and bribes, such as (but not limited to) any type of gift, cash, stock, bond or its equivalent, or to participate in any business courtesy that may compromise the employees' judgment or motivate the employees to perform acts prohibited by laws/regulations or HTC policies.

Meal expenses between/among colleagues cannot be treated as entertainment expenses. However, expenditures incurred for entertainment immediately before, during, or after a business meeting are acceptable, if those who will enjoy the entertainment are from another country or continent.

2.6 In the event that any HTC employee is offered/requested kickbacks, commissions, gifts, or inappropriate offers from a representative of a vendor, supplier or business partner, he/she is required to report the incident to HTC (anti-corruption@htc.com). An internal investigation team will look into the matter, with the employee's identity treated in strict confidentiality.

2.7 Employees are not to solicit or lure other employees in the company to violate their duties.

2.8 Employees who are responsible for the custody or use of any HTC property are not misuse or abuse the company"s property.

3.0 Conflict of Interest

All employees must avoid any activity that is or has the appearance of being hostile, adverse, or competitive with the Company, or that interfaces with the proper performance of their duties, responsibilities or loyalties to the Company.

3.1 Inside Trading:

All employees are not permitted, using their own names or the names of people with whom they have personal relationships, to engage in business ventures the same as or similar to HTC or to invest exceeding five percent of total market value in such a company. Employees are also prohibited from use so-called “Inside Information” to gain personal profit or to influence the independent judgment of business entities, such as investment in competitors, customers, venders/suppliers or subcontractors. “Inside Information” comprises facts that an employee knows, but people outside of HTC may not know, which might be in written form or discussed orally in a meeting. Inside information may also be information received from another company, such as from customers, suppliers or companies with which HTC has a joint research or development program. Therefore, employees may never use inside information to trade or influence the trading of stocks of HTC or other companies and should also not provide “tips” or share inside information with any other person who might trade stock. Insider trading violates company policies and may subject the employee to criminal penalties in accordance with the government’s regulations/laws.

3.2 Creditor and debtor relations:

Employees may have debtor and creditor relations with colleagues without interest to help each other for urgent situation, but are not allowed to have creditor or debtor relations with subordinates, customers, suppliers/venders, or anyone in a business relationship, nor introduce such persons (including colleagues)to anyone to enter any debtor- creditor relations.

3.3 Outside Employment:

All employees are prohibited to work either part-time or full-time for or receive payments of services from any competitors, customers, venders/suppliers or subcontractors of HTC. If any employee is invited to serve as a lecturer, board member of an outside company, advisory board, committee or agency, he/ she must get appropriate approval from the local top manager of Company in advance. Even if an invitation is not listed as above, permission from a top manager is required. In general, employees are not restricted from being members of the boards of charitable or community organizations. HTC also permits employees obtaining appropriate approval to serve as directors of an outside company that is invested in by HTC or is not a competitor or service provider of a competitor.

3.4 Third party invitations, which may reference your role and/or knowledge as an employee at HTC:
If any HTC employee is invited to join external meetings, conferences, seminars, lectures, etc., or if asked to be a host or judge for an event during or outside of office hours, he/she must secure approval from the line manager and local PR team prior to participation.

3.5 The company provides employees with a full range of welfare measures such as life insurance, health and convenience services. As employees, you should appreciate the resources provided by the company and do not abuse or misuse the corporate welfare system.

3.6 HTC employees are not allowed to persuade anyone in the company, customers or third-parties such as suppliers or subcontractors to invest in other businesses.

HTC Corporation

Chairwoman: Cher Wang